
Drafting Intellectual Property License Agreements: Issues Overview

Cory J. Furman¹

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¹ Cory Furman is a partner in the Regina office of MacPherson Leslie & Tyerman LLP. Cory's practice is exclusively in the area of intellectual property law, and encompasses patent and trademark prosecution and enforcement/litigation, licensing and technology transfer, and related issues. This paper prepared in outline of a presentation at the Insight *Drafting Major Business Agreements* conference, Winnipeg, Manitoba, May 17, 2010. Copyright MacPherson Leslie & Tyerman LLP, 2010 - all rights reserved.

The number and variety of business transactions which include or incorporate reliance upon different intellectual property rights proliferates all the time. Either as stand-alone agreements, or as components of larger transaction documents or structures, intellectual property licensing and the due diligence associated therewith can pose a bit of a minefield - this paper is intended to provide a brief overview of some of the key issues in the drafting of intellectual property license agreements or license provisions, determination of their appropriate scope and structure, to minimize ambiguity and dispute.

Overview:

Intellectual property licensing or general technology transfer contracting can be and is encouraged to be as flexible as is necessary to accomplish the business objectives of the parties. Counsel are encouraged to canvas at the business level with their clients what the business decision or factor matrix is that is involved in a particular circumstance, and with these matrices in hand a licensing agreement, or licensing provision for inclusion in an overall agreement, of appropriate scope and direction to accomplish the majority of what everyone needs can be arrived at. Many of the most common pitfalls and problems in the drafting, application and enforcement of license agreements can be avoided with care and attention to key areas. Drafting documents succinctly and with clarity in these areas should maximize the value of the provisions created by you for your clients as well as minimizing either exposure to or ambiguity in litigation or enforcement proceedings related to the license agreements in question.

Dependent upon the client, your interest or participation in the licensing transaction may pertain to the creation of an "licensing in" or a "licensing out" scenario -- there are really three basic concepts in a licensing transaction which the remainder of the agreement is intended to flesh out or support:

1. "getting in" - Grant, ownership and any limitations to the rights of use of the technology or rights in question;
2. "staying in" - consideration for the agreements as well as representations and warranties; and
3. "getting out" - term and termination of the agreement as well as post termination obligations.

The specifics on different clauses or elements of a typical intellectual property license agreement outlined below fall within these three conceptual headings. In terms of a checklist outlining the types of questions or factors which shape the inventory of intellectual property rights to be included within the scope of the licensing or other similar transactional agreement, and determination of appropriate transaction structure vis-à-vis the intellectual property rights in question to determine for example if certain rights need to be licensed and others need to be transferred etc., I provide the following guideline:

- What specific inventory of intellectual property rights is each party bringing to the relationship;
- Will the intellectual property of parties that they are bringing to the relationship remain their own, or do something within the agreement act to transfer or co-mingle that property?
- Who will own the intellectual property that is developed by an individual party during the term of the agreement;
- Who will own the intellectual property that is developed jointly by the parties during the term of the agreement;

- Are the non-owning parties of intellectual property created within the term of the agreement entitled to a post termination license to jointly developed property? [typically on a nonexclusive, perpetual, royalty-free and/or non-transferable basis]
- who may and should register the intellectual property rights created during the term of the relationship, and who should hold the IP registrations?
- Who is responsible for the cost of maintaining and defending the intellectual property?

It is necessary for counsel to have a good technical understanding of the intellectual property itself as well as the business arrangement contemplated by the parties with respect to those intellectual property rights. For example there may be a case in which all that is required is a very simple license agreement pertaining to a single patent owned by the licensor, through to a series of agreements which might provide licenses in respect of patents and trademarks, and even in some circumstances third-party consents from third-party intellectual property rights holders which are required in order to provide a fully effective license to the licensee. In the circumstances here I have prepared my comments on the basis that what is being contemplated is the granting of an intellectual property license, versus a transfer, but it may be the case that structurally or transactionally a transfer may be the more desirable approach.²

² One set of circumstances in which a transfer becomes more desirable the license is in the current Canadian context if it is desired to effect a property registry recordal of the rights of the licensee or the acquiring party. While it is possible to record a license against a patent registration, for example, in the Canadian Intellectual Property Office, we currently lack in Canada a formal intellectual property security regime and on that basis the license while it would be recorded against the patent title could not have the same effect as for example a GSA provided and recorded in a provincial property registry. In a circumstance where counsel are acting in a financing transaction for example or in the licensing transaction which has underlying financing or ownership connotations, an alternate approach to a license which can simply be recorded without effect in intellectual property office is to effect the transfer of the intellectual property rights in question with a predetermined and agreed to grant back or reversionary interest to the transferor. Beyond the circumstance where it is desired to create an effective intellectual property security interest, other cases in which this type of

Ownership of Intellectual Property:

The drafter must fully understand the appropriate scope or inventory of intellectual property rights which are included or needed by the parties to be included within the scope of the arrangement. Properly defining what each party is bringing to the relationship, and/or whether there is the intention between the parties to comingle their intellectual property is key in terms of minimizing disappointment or consternation on any side of the transaction either before or during or after the term has run its course. Assembly of the inventory of intellectual property rights in play in a particular transaction, dependent upon understanding by counsel of the technology in question as well as the business relationship which is contemplated by the parties, will assist in driving the eventual structuring of the agreement or agreements in question and even in terms of selecting the appropriate transaction structure vis-à-vis the intellectual property rights in question -- i.e. license, transfer etc.

In creation of the inventory of intellectual property assets that the parties are intending to deal with, it is also important to be sure to identify both registered and unregistered intellectual property rights, common law rights and goodwill [in the context of trademarks], as well as any geographic limitations are areas in which these rights exist.

Categories of IP rights:

There are many different categories of intellectual property rights which might be created in the context of a particular business relationship and meritorious of

approach is used might include a transaction where the beneficiary of such a transfer is desired to have ownership of the intellectual property but the transferor still needs to protect a reversionary interest for the purpose of obtaining ownership back if the terms of the agreement are ever breached. One approach to this is to assign the rights in question and in that assignment provide a reversion framework, with the reversionary documents potentially even agreed upon in this form and potentially even executed as a schedule to the assignment agreement.

protection and/or licensing, and/or from different legal perspectives and different international jurisdictions different groupings of intellectual property rights may also exist which triggered the desirability for an intellectual property licensing provision.

A listing of key categories of intellectual property asset types into which many of the rights which are the subject of intellectual property licensing agreement will fall is as follows:

- patents;
- trademarks;
- copyright;
- industrial designs;
- trade secrets;
- confidential business information;
- third-party licenses or contractual rights;

Counsel who are working on the creation of a particular transaction structure in which there is the apparent presence of any of these types of intellectual property rights, or even any of the underlying research and development work which might lead to the creation of these types of rights, would be advised to use the existence of these types of rights in the framework of a transaction between a number of parties as a trigger to consider whether or not, or what type, of intellectual property license provision needs to be created.

In certain categories intellectual property rights can be registered or unregistered and the treatment of these two subcategories might be slightly different -- for example copyright and trademark rights are typically two categories of intellectual property rights which can properly be the subject of registration of national or

regional level but also have some level of protection associated with their common law use. Identifying whether or not the rights in a particular jurisdiction are registered or unregistered is a key point in the assembly of the intellectual property inventory for the creation of a licensing provision, since there may be different treatment to these subcategories both in the agreement as well as how they are approached from the perspective of registration or crystallization of the rights of the parties to the license agreement.

The licensor may also wish to contemplate registering their intellectual property rights such as patents, trademarks etc. as a part of development of their licensing strategy simply because the registration of the rights does in most cases provide a streamlined enforcement position as well as crystallizing the rights which can be included within the license agreement in question. There is in many cases a presumption of validity of a registered intellectual property right which provide some added value to the licensor in terms of how they might approach a transaction.

Transactions including a licensing component:

There are many different types of commercial transactions which might incorporate an intellectual property licensing component. The following listing of agreement types is intended to provide a level of sensitivity or awareness to the type of agreements or situations within which the incorporation of intellectual property licensing provisions may be appropriate:

1. intellectual property license agreement -- applicability or determination is straightforward;
2. franchise agreements -- it is important to have franchisees covenant to protect the intellectual property rights of the franchise system as well as to protect the rights of the franchisor to enforce or maintain the exclusivity over

- their intellectual property rights upon termination or expiry of a particular franchise agreement;
3. product distribution agreement - it may be desirable or necessary to grant certain license provisions in the scope of the nomination of any distributor for products or services within the marketplace;
 4. agency agreement;
 5. cooperative research agreements;
 6. joint venture agreements;
 7. software license and support services agreements;
 8. consulting agreements, particularly those touching directly upon the development of intellectual property or projects that might contain an IP component;
 9. purchase or sale of a business - it may be the case that particular transaction structures from an M&A perspective incorporate the setup or administration of intellectual property ownership either from a tax or a structural point of view in a way that an ongoing license to certain rights is required; and
 10. security agreements - licensor intellectual property transfer agreements are often times a component of the creation of security interests in financing transactions.

This listing is by no means exhaustive but hopefully will provide you with a bit of a trigger in terms of consideration of the types of certain kinds of transactions that

might require a complete intellectual property licensing agreement, or the inclusion of a licensing provision or set of provisions within another overarching transaction document.

Grant of rights:

Once it is determined that an intellectual property license agreement is appropriate, the next basket of questions which it will be appropriate to review with the client for the purpose of providing a structure of appropriate scope and direction center around the territory and other restrictions on the license to be granted.

Strictly in terms of territory, is the license to be granted limited to a particular province, a particular country, global in nature, or in the case of a license of more elaborate nature in which there are multiple categories of rights being licensed it may also be the case that rights to some of the IP in question are being granted on a broader basis than others.

Another key point in the scope of the grant is whether the license is exclusive or nonexclusive. Determination of exclusivity in respect of intellectual property licenses includes general business level questions for the licensor surrounding how they plan to approach their licensing and other business overall, since the rights which are available to be granted in a particular transaction may be limited by other relationships between the licensor and third parties -- for example it may have already granted an exclusive license in a portion of the territory desired by the new licensee, or there may be notice or consent provisions in previously granted licenses whereby previous licensees have the ability to consent or approve the appointment of new licensees.

In the context of exclusive licensees another question for the licensor to contemplate is whether or not they wish even themselves to be able to practice the intellectual property rights in respect of which they are contemplating the granting of an exclusive license, since potentially the reservation of the right to practice the intellectual property rights in question on the part of the licensor renders the license nonexclusive. If the licensor wishes to retain to themselves the right to also practice the intellectual property rights in question in that marketplace while granting an exclusive license to another party, it is advisable to delineate this in the contract. See for example *E.B.F. Manufacturing Ltd. v. White*.³

One of the termination events or termination oversight triggers that is contemplated to be drafted into the agreement is that of a minimum performance threshold -- for example are minimum sales quotas required in order to maintain the license. Consideration of this issue logically fits in with the questions or considerations surrounding exclusive versus nonexclusive license rights. In the context of an exclusive license minimum performance thresholds are particularly important to contemplate, since insofar as the licensor is making an exclusive commitment to a particular licensee for a market they want to be able to be assured of a particular threshold of performance failing which it may be the case that the license which is granted either converts to a nonexclusive license within the same territory, or is terminated upon notice. Again there is a significant degree of flexibility in the approach to be taken to this type of a clause but minimum performance thresholds are something to be contemplated.⁴

³ [2009] N.S.J. No. 435 [N.S.S.C.]. In this case the licensee was considered by the licensor to be in breach of the agreement for failure to make payments but it was determined by the court that the nonpayment did not constitute a fundamental breach and on that basis the license which was exclusive remain valid and enforceable. On this basis the licensor was found liable for damages to the licensee for competing with them, since they had granted an exclusive license.

⁴ It may actually be the case that the licensor prefers to draft the termination of the agreement if the minimum performance threshold is not met, rather than the conversion of the license to a nonexclusive one, since if they have a nonexclusive licensee in the marketplace, the licensor may be limited in their ability to secure a new higher yield licensor who may wish to have exclusive rights within the market.

There may be cases in which rather than granting a "pure" license, the licensor simply provides an agreement not to sue. An agreement not to sue can be characterized as a license -- there is a recent US case in which a covenant not to sue was held to equate to a nonexclusive license.⁵

Trademark licensing issues:

One of the key issues in trademark licensing is that the agreement must contain appropriate provisions pursuant to which the trademark owner can demonstrate that they are maintaining care and control of the use of their trademark on products and services by the licensee or the subsidiary party.

Care and control provisions from a Canadian perspective require that the trademark owner be able to show that they are proactively monitoring the use of their trademarks on a commercially reasonable basis. Often times this will include the right for the licensor to conduct spot audits of trademark use as well as to potentially require periodic filing of specimens of use and other related information by the licensee with the licensor. Inclusion of this type of terminology in the license, ideally being a written license, is important particularly as the scope and importance of trademark licensed to the overall transaction and the importance of the trademark itself to the licensor increases, since in the context of a registered trademark the registration can become susceptible to invalidation if sufficient policing or monitoring is not undertaken by the licensor/owner.

The trademark license agreement should also include a right of termination for unacceptable use of the trademarks in question, since this demonstrates the ultimate control measure over the use of the trademark by the licensee.

⁵ *Transcore LP and TC License, Ltd. v. Electronic Transaction Consultants Corporation*, Court of Appeals for the Federal Circuit - 2008-1430.

It is possible to infer a license from the facts, in a circumstance where the license which is alleged to exist is not written down. However, the mere fact that there is some common control between the companies of the trademark registrant and the licensee is not sufficient to infer a license and establish that the use of the trademark is controlled.⁶

An area in which trademark and other intellectual property licenses are advisable and are often overlooked is between related parties -- for example within a corporate umbrella or corporate group is oftentimes overlooked that there should be appropriate trademark licensing provisions in place. Trademark licenses between related parties can also be used from a tax or structural perspective in terms of allocating income related to particular intellectual property assets amongst various companies in the group. I will not deal with this any further detail at present but certainly a pointer for everyone to keep in mind is that as you are advising clients on an ongoing basis it is desirable to have related parties license agreements in place where the circumstances exist. From a structural or revenue allocation perspective related parties license agreements can be just as important or applicable in respect of other intellectual property rights but with respect to trademarks they become particularly important to preserve the validity of the trademarks in question.

Copyright Licenses:

Copyright and trade secret licenses most often pertain to an actual deliverable, versus patent and trademark licenses which quite often simply license rights to the licensee under which they will produce their own product. In the context of a copyright license one of the things that it is key to contract in the deal is whether or

⁶ 3082833 *Nova Scotia Co. v. Lang Michener LLP* [2009] F.C.J. No. 1142 [Fed. Ct.]

not the license will cover updates to the work, if updates are created, or if it is the intention of the parties that a separate negotiation needs to be held to extend the license to cover updates or new versions.

In relationships or licensing scenarios in which the key asset being licensed as a trade secret or a category of confidential business information, the importance of the trade secrecy provisions and/or confidentiality provisions of the license agreement is highlighted and in fact cases in which license rights to particular trade secrets or confidential information are granted are cases in which there will likely be within the document significant additional language around confidentiality, in comparison to general corporate commercial confidentiality language that might be included in most types of transactional documents. Given the importance of maintaining confidentiality or trade secret status over a trade secret this can be understood -- basically a trade secret loses its protected status as soon as it becomes unprotected.

Payment Schemes:

There are numerous types of royalty or payment schemes which can be contemplated pursuant to an intellectual property license agreement and the following list is provided to give a demonstration of the type of arrangements which could be contemplated:

1. lump sum or paid up license;
2. royalty on net sales;
3. sliding scale royalty;
4. royalty per unit sold;
5. differential royalty for patent/trade secrets etc.
6. minimum royalty provision;

7. milestone payments;
8. nonmonetary compensation; and
9. cross license.

This list is by no means considered exhaustive but will give some idea of the type or flexibility of payment arrangements which can be created.

Payment schemes and commercial terms of the license agreement made to a large extent will be driven by tax or other corporate considerations -- these tax or non-IP factors often are the key drivers in what the compensation arrangement for the overall licensing scheme looks like at the end of the day. As mentioned above tax the revenue allocation strategies are also a key factor in the development and implementation of proper related parties license agreements.

Compensation to be paid in the license agreement is oftentimes determined to a degree as well by the remaining term of the intellectual property rights in question. For example, if the patent that is being licensed is due to expire in three years, it may be a negotiating point as to whether or not if it is desired to effectively extend the protection on the invention by extending the term of the license beyond those three years whether or not the royalty or consideration payable after expiry of the patent should be reduced. Of course the counter to that position will be that the licensee likely will simply just wish to pay nothing at that point.

On transaction and revenue model structures, the sky's the limit in terms of flexibility -- really there should be very few approaches which in the appropriate circumstance with a meeting of the minds between the parties cannot be accommodated.

Agreement Term:

The parties should at all times be very clear as to the intended term of the agreement, and draft these aspects of the clause as plainly and unambiguously as possible. Consider for example the following samples of "term" language:

BAD PROVISIONS:
14.2 unless earlier terminated as provided elsewhere herein, the term of this Agreement shall be for seven [7] years from the date of execution hereof unless the Effective Date is earlier than the date of execution in which case the term will be for seven years from the Effective Date, and unless either party gives 45 days notice of nonrenewal thereto prior to the end of the initial term, this Agreement will automatically renew for successive additional periods of 18 months.
1. This Agreement starts on the Effective Date and continues for a period of 18 months [the "Term"] this Agreement renews automatically for additional 12 month periods, each one of these also being a "Term", unless earlier terminated otherwise herein.
15. The term of this Agreement and the Parties obligations hereunder are deemed to have commenced on the latter of the dates signed below [see "Execution Date"] and shall continue, unless terminated earlier under the terms of the Agreement, until project is completed in its entirety and Consultant has fulfilled all of his obligations under this Agreement including those that would reasonably and naturally continue to survive beyond the completion of the project [the "Term"].
GOOD PROVISION:
1. <u>TERM</u> This Agreement begins on the Effective Date and ends, unless earlier terminated under the terms of this Agreement, on December 31, 2010 ("Term")

A quick checklist in terms of drafting practices which could be employed to most satisfactorily accommodate the needs and the understanding of the parties:

- Put the Term of the agreement right up front, clearly label it, clearly state the duration, and do not include termination situations in the initial definition of the Term [this will keep the initial language is clear and unambiguous as possible].
- The Term should be stated to start at some unambiguous date, for example the Effective Date of the agreement etc.
- State the end of the term as either a fixed date or a measurable objective or time certain
- Be careful about automatic renewal provisions, unless the client is really comfortable with them, particularly in situations if the client does not have a strong ongoing contract management or monitoring situation.

Termination:

It is advisable to keep the listing of termination events or triggers separate from the overarching definition of agreement Term. This allows for greater clarity in both sets of clauses. It is key to ensure that the agreement reflects from the perspective of the parties the entire listing of events that warrant termination, with or without cause etc. In addition to a typical set of core termination events such as a non-cured breach, business failure, insolvency etc., it is also appropriate to keep in mind and to potentially reflect or include special termination events that deal with issues central to the purpose of the agreement. For example, in a joint research and development agreement failure of one party to reach milestones affecting the funding or the forward movement of the project, failure to secure necessary regulatory approvals for the project to proceed etc.

My typical approach and recommendation is to separately itemized post-termination obligations of the parties in another section to again keep the listing of termination events as clear and concise as possible.

Consider the following two termination provision examples:

BAD PROVISION:
14.2 Licensor may terminate this Agreement, with or without cause, at any time during the term hereof. In the event of termination, Licensor shall not be liable for any expenditures made by Licensee in reliance on this agreement.
GOOD PROVISION:
15. Either party may immediately terminate this Agreement with written notice to the other party, if the other party: <ol style="list-style-type: none">1. Breaches this Agreement and fails to cure that breach within 30 days of receiving written notice from the nonbreaching party;2. Terminates or suspends its business;3. Becomes subject to bankruptcy or insolvency proceeding, becomes insolvent or otherwise under the direct control of a trustee, receiver or similar authority;4. Is involved in misconduct that the other party reasonably believes is likely to damage their intellectual property or goodwill.

Post-Termination:

Intellectual property licensing provisions, particularly those that arise out of cooperative research agreements or other types of transactions are circumstances in which multiple parties to the agreements may either come to the relationship with intellectual property assets of their own for contribution or use, or may create in the course of the relationship intellectual property rights, quite often will appropriately include well thought out post termination provisions, since even in terms of confidentiality and validity of intellectual property rights there are some important post termination obligations which need to be observed by parties.

Generally speaking, the following is a short listing of the type of checklist actions which could be scheduled in a post termination framework:

- A listing of actions that each party must take when the agreement ends;
- A listing of obligations and actions that stop and those that continue upon termination of the agreement, and whether or not there is any difference in this listing based upon whether the agreement terminates by expiry or by a proactive termination by a party;
- A discussion of what happens to confidential information and work in progress of the parties;
- A listing of final reporting requirements about any items in development, or the use or sales of items which might have financial repercussions or may simply need to be confirmed from the perspective of an orderly wrap-up of affairs between the parties;
- A framework for final accounting requirements and payments between the parties

My personal drafting preference where applicable has been to try to lay out the post termination section of an intellectual property licensing agreement in a chronological order, simply since it often times makes things most simple for the business level clients to understand and follow either in terms of its drafting or in terms of its implementation upon termination of the agreement.

Regulatory Issues:

In terms of the drafting of license agreements for intellectual property rights and the commercialization of technology, regulatory issues are typically going to be the responsibility of the licensor if the licensor is licensing completed commercial technology to the licensee. Counsel for the licensee will wish to secure representations or warranties appropriate to the status at the regulatory level of the technology in question to provide comfort to their clients in that regard.

If the licensee will be involved in the regulatory process with respect to a particular piece of technology, the licensee will wish to clarify in the arrangement financial responsibility for the regulatory process, liability for any testing or regulatory approval process that is underway, as well as even potentially providing for early termination of the agreement if they wish to exit from obligations under the agreement if regulatory approval is not secured.

Ownership of the regulatory approvals is another key point for consideration on either side negotiating intellectual property rights license agreements which include technology which require regulatory approval in advance of their commercial circulation in the Canadian marketplace. The licensor for example would typically want to own the regulatory approvals so that they control their ability to circulate their products or services in the Canadian marketplace regardless of who they licensee is i.e. if the agreement is terminated or otherwise expires. The flipside of this is that the licensee may endeavor to assert some joint ownership or joint listing as the regulatory approval owner or even to solely owned the regulatory approvals as the face on the ground in Canada with respect to the product or service, such that they enhance their bargaining leverage in terms of the continued circulation of the product or service in the Canadian marketplace.

Warranties:

Counsel will already be aware of many of the general strategies associated with either negotiating or obtaining representations and warranties or indemnities of appropriate scope in myriad commercial agreements. You will all have your own personal preference as to negotiating approach in this area, and will have your own comfort level as well as your client's comfort level with respect to the level of granularity which is desired in representations and warranties and related terminology within the agreement - the same negotiating principles would apply in terms of the selection or negotiation of warranties or representations in an intellectual property licensing agreement.

Acting for the licensor, it is always good to keep an eye on the warranties from the perspective of warranting only those items that your client honestly has control of or can control. Just as it is important to exercise care and control over the scope of the warranties to be provided by the licensor in a license agreement, it is also important to ensure that any warranty disclaimers are clearly and prominently presented in the agreement. Some of the general commercial warranties that are most often included intellectual property license agreements include commercially reasonable efforts to deliver the goods or services in a timely manner, fitness for purpose, and not in violation of third party rights.

Following is a list of some intellectual property specific warranties and warranty areas that counsel may find of use in licensing or other similar intellectual property documentation:

Subject matter - patents:

- Warranty of patent validity or of patentability in the case of pending patent applications -- this type of the warranty can also be used to

deal with circumstances in which there is no freedom to operate analysis conducted at the due diligence process;

- Warranty ownership i.e. that the licensor is the owner of the patent rights in question and they are not encumbered in any way that they cannot be licensed pursuant to the agreement;
- Warranty against infringement of third party patent rights;
- Warranties related to any territorial capacity restriction or issue with respect to the ability of the licensor to grant the rights desired by the licensee;
- Warranties regarding regulatory approval status of the product or process of the patent, and the ownership of same;
- In the case that the invention is not patentable, warranties regarding whatever other types of contractual protection measures may be in place with manufacturers or other third parties might also be included.

Subject matter - trademarks:

- Warranty of validity of the trademark registration or registrations in question, as well as perhaps an outline of third parties of which the licensor is aware in the marketplace and warranty against infringement of third party rights;
- Warranty of the registrability of trademark application or applications in the case of pending trademark rights;
- Warranty regarding market position insofar as exclusivity in the distribution channel in question with respect to that particular trademark is potentially a key factor in the determination of the reasonableness of consideration in the license agreement;

- Warranty regarding ownership of the trademarks in question as well as the capacity of the licensor to grant the rights pursuant to the license agreement in question;

Subject matter - copyright:

- Warranty of the validity of any copyright registration or registrations in place;
- Warranty of noninfringement of third party rights ;
- Warranty of the publication status of the work or works;
- Warranty of chain of title as well as authorship of the works;

Consider the following two warranty provision examples:

BAD PROVISION:

The Consultant represents and warrants that the services provided to the Customer hereunder will conform substantially to specifications set forth in the applicable Services Documentation, as may be amended from time to time at the Consultants sole discretion; and the Software will conform substantially to the applicable software documentation as may be amended from time to time at Consultants sole discretion, when delivered in for a period of 90 calendar days thereafter.

GOOD PROVISION:

a. We will provide Services in a professional manner and according to accepted industry standards. We provide third-party services to you "as is" and "as available" without warranty. We will use reasonable efforts to pass through to you third-party warranties that we receive.

b. You will obtain all necessary rights, licenses, consents, waivers and permissions to use the Products or to allow us to provide Services to you or on your behalf.

c. Each party will comply with all applicable federal, provincial and local laws pertaining to the Products and Services. Unless otherwise stated in writing, these warranties are made in lieu of any and all other express or

implied warranties including but not limited to warranties of merchantability, integration, performance, fitness for purpose, accuracy and noninfringement, as well as warranties arising out of course of dealing.

At the end of the day both in terms of the preparation of warranty and indemnification provisions and overall, one of the key strategies to rendering effective licensing arrangements is to align the interests of the parties, which makes the negotiation of these more contentious provisions as well as the overall structure of agreements more straightforward. On behalf of the licensee, it is appropriate to request warranties on topics about which your client is most concerned, but it is to the benefit of both parties for those warranties also to be specific enough that they could be enforceable [for example, how product should function etc. in the development agreement].

Indemnification:

It is important to maintain a proper perspective in the creation of indemnification provisions in an intellectual property licensing scenario. It is preferable to avoid unnecessary complexity or attempts to solve for all risks, and it is important to remember that the indemnification sections of the agreement pertain to third party claims rather than to any claims between the parties.

The starting point for a commercially reasonable set of indemnification provisions should be that each party assumes responsibility for its own business. Again most counsel will already have a general comfort level with indemnification provisions of a general commercial nature. More often than not indemnification would be two way on many of the general commercial indemnities. Also in terms of indemnity at a general level it is optimal to include that each party is responsible for third-party

actions and damages that might create as a result of breaching obligations are warranties in the agreement.

In an intellectual property licensing agreement there are certain additional IP related issues on which the parties may wish to seek indemnification -- they typically relate to infringement of third party intellectual property rights. These particular aspects of the indemnification provision may or may not be two-way indemnities as they would typically primarily be intended for the benefit of the licensee. For example, a licensee would quite typically want to see an indemnity in respect of intellectual property rights that they are licensing vis-à-vis third party rights. If the licensee is licensing a patent from the licensor they may wish to endeavor to secure an indemnity in respect of allegations of infringement of third party rights by the patent and by the licensee by practicing the patent that they have licensed pursuant to the agreement. The licensor may or may not be prepared to provide such blanket comfort - it may be possible short of a blanket indemnity such as this however to satisfy the needs of the parties by creation of a more specific indemnity vis-à-vis specific third parties or specific third party intellectual property rights.

Product liability indemnity may also be a key factor in the negotiation of a complete indemnification framework in intellectual property licensing agreements.

In the circumstance of a product or process which is the subject matter of a license and is also the subject of government regulation, the licensee may also wish to secure an indemnity in respect of any regulatory issues which arise with respect to the offer for sale of the product or service or practicing of the technology provided pursuant to the license. This type of an indemnity would likely go hand-in-hand with one or more warranties in the agreement regarding the regulatory status of the technology.

More often than not indemnification for legal costs can flow as a part of an overall liability indemnity but in certain circumstances there may be an agreement to indemnify legal costs without necessarily an attached indemnity for liability being in operation or effect. For example it may be the case that a licensor may agree as part and parcel of a negotiated third-party infringement liability indemnity to indemnify the licensee for costs incurred in obtaining infringement opinion from legal counsel in advance of the triggering of the application of the overarching liability indemnity. Again, avoiding unnecessary complexity is key in coming up with practical and useful indemnity provisions but maintaining an open mind to flexibility and creativity and drafting of indemnification provisions is just as important.

Confidentiality:

Stepping back for a moment, it is key to point out that most intellectual property licensing agreements should be host to a confidentiality provision or set of confidentiality provisions. Dependent upon the nature of the transaction and the level of sophistication of the parties a confidentiality provisions in question may be more or less complex, but there is virtually always in the case where intellectual property is in play and need to protect the confidential information of the parties both vis-à-vis each other as well as to a limited degree and to the extent possible vis-à-vis third party exploitation on the basis of an inadvertent disclosure.

The following checklist provides an overview of practice tips in the drafting of confidentiality provisions for the simplest or most streamlined application or enforcement:

- Avoid the use of a marking clause -- which defines as confidential only things that are marked as "confidential". Make everything that the parties exchange during the term of the agreement be confidential;

- Rather than creating a listing of what materials are confidential, create a list of the smaller subheading or group of items that are not considered by the parties to be confidential materials;
- State generally or as specifically as desired what the receiving party can and should do with the confidential information which they are provided;
- Require the receiving party to use an appropriate level of security protection over the information;
- Provide for the requirement that the receiving party return or destroy the confidential information upon demand and/or on termination of the agreement.

The following is an example of a fairly broad confidentiality provision which it is submitted covers the majority of the bases in terms of establishing an appropriate confidentiality framework in many standard business or licensing transactions:

GOOD PROVISION:

- a. You acknowledge that all information that we provide to you is proprietary and confidential ["Confidential Information"]. You will:
- i. Maintain the confidentiality of the Confidential Information during and after the Term;
 - ii. keep all Confidential Information in a secure place;
 - iii. not use Confidential Information for any purpose other than performance under this Agreement;
 - iv. not disclose Confidential Information to any third party without obtaining our prior written permission; and
 - v. Return to us all Confidential Information, including all copies thereof, when we request and upon any termination of this Agreement.

- b. Confidential Information does not include information that you can show that you knew before it was disclosed to you, was in the public domain through no breach of this Agreement or other wrongful act, that was rightfully received from a third party without breach of this agreement, or that we approved for release.
- c. During and for five years after termination of this Agreement, you will keep Confidential Information secret using at least the measures that used to protect your own confidential information. You will not disclose, make accessible or communicate Confidential Information to any third party and will not use Confidential Information for personal or third-party benefit. You will notify us immediately when you become aware of any loss of Confidential Information, unauthorized disclosure or legal disclosure requirement thereof, you will not reverse engineer, disassemble or decompile prototypes, software or other tangible objects that embody our Confidential Information.
- d. On termination of this Agreement, you will stop using CONFIDENTIAL Information and will return that to us or destroy, at our request, CONFIDENTIAL Information originals and copies.

In fact patterns heavily reliant on confidential information or trade secrets, the confidentiality provisions become even more important and would take a more elaborate format from that outlined above. In such a circumstance the trade secrecy provisions in the intellectual property licensing agreement would in many ways nearer the terms of other external trade secrecy interface agreements on behalf of the rights holder. It is absolutely essential in circumstances where there will be confidential information exchanged or provided to the licensee which constitutes a trade secret of the licensor that the appropriate framework be in place in the contract as without appropriate contractual protections, the trade secret status of the information in question can be threatened.

Assignment:

In the context of intellectual property licensing agreements, from the perspective of the licensor it will typically be the case that there is a desire to strictly control the

right of the licensee to assign the agreement. For example, the licensor may simply not want the licensee without their consent to have the ability to assign rights to technology, trademarks and the like to third parties over whom the licensor has had no right of selection or due diligence. Particularly in the context of clients with larger intellectual property portfolios or licensing regimes, the business level overlap or business level conflict that can be created between other members of the licensor's business network by the inappropriate entry of a party into their business or licensing network are something which the licensor will wish to guard against.

Specifically from a trademark licensing perspective, one of the key components to a trademark license is that the licensor must be comfortable with the quality of the products or services which are being offered by the licensee pursuant to their license trademarks, and it may be the case for example that the party to whom the licensee proposes to assign their rights pursuant to a license agreement is not a party with whom the licensor is comfortable from the perspective of their quality of goods and services. It is virtually mandatory in the trademark licensing context for the licensor to be able to control this type of a situation, since if they were not able to maintain control over the assignment of license rights and indirectly then maintain control over who was using their trademarks in what way, the trademark rights in question could be exposed to an allegation of invalidity at some point.

It is key to specify, in the circumstance where one or the other party will be allowed to assign their rights or obligations under the agreement, who can assign them, what they can assign, i.e. whether they can assign individual obligations for the entire agreement, and/or whether they need to have the consent of the other party in advance of doing so. If no consent is required, it is desirable to require the assigning party to at the least notify the other party and provide the contact information for the assignee.

While there may in many cases be little or no ability to assign the agreement on the part of one or both parties, it is often desirable to build in an appropriate clause or framework whereby corporate reorganization or change of control can be accommodated without triggering a breach of the assignment provision. For example if licensor or licensee had a change of control, the company changed hands or there was otherwise some need to undertake a corporate reorganization, the ideal situation would be such that this would be accommodated by the assignment framework in the agreement.

In cases where the agreement will provide that one or the other party can assign their rights pursuant to the agreement, both parties will wish for there to be a requirement that the assignee of the rights under the agreement needs to abide by the terms and obligations of the assignor. For example, if the licensor was to wish to assign their rights by way of a corporate reorganization, the licensee would want to ensure that they were still going to be protected in the same way by indemnity etc. and/or that the licensor would provide to them the same level of support or access to the technology in question. Similarly if the licensor was to allow the assignment by the licensee, they would wish to ensure that the assignee was also capable of meeting all the obligations of bound by all the obligations of the licensee from whom they were acquiring their position in the transaction.

A business level consideration in this context is comfort around the financial ability of a new proposed assignee to satisfy the obligations of one party under the agreement if they were to be substituted. While we have spoken about this above already in the general context of the parties and particularly the licensor typically wishing to maintain the ability to exercise a degree of subjective selection over the parties to these agreements and thus to be allowed to unreasonably withhold consent or to otherwise simply bar the ability for an assignment by a licensee, one of the factors for counsel to consider in respect of in this type of circumstance is

whether or not the proposed new substitute party has sufficient credit-worthiness or financial ability to stand in the shoes and honor the financial obligations of the other party pursuant to the agreement. For example, from the perspective of the licensee who was facing the assignment of the agreement by a licensor, would the new proposed licensor be a party whom was financially able to support the indemnification obligation in respect of third-party infringement allegations which likely would have been provided by the licensor in the remainder of the agreement.

Covenants against validity attack:

A typical intellectual property licensing agreement might contain a number of fairly standard covenants. From the perspective of a licensor, one of the key covenants is a covenant not to directly attack the validity of any intellectual property rights being licensed and/or to aid any third party in doing so.

Ideally this covenant should survive termination, as the licensor does not want to find themselves in the circumstance that upon termination or expiry of the agreement they face a validity challenge from the former licensee rather than a renewal of the agreement.

Conversely from the perspective of counseling a licensee you may wish to try and minimize or avoid a covenant against attacking validity although these covenants are typically the norm in these types of agreements and so it may not be that simple to avoid the entry of this type of a covenant into an intellectual property license agreement. Certainly the writer, advising a licensor, would be fairly strenuous in arguing against acceptance of removal of this type of a covenant from an agreement without crystal clear understanding of the importance of removal of that covenant by the licensor.

Choice of Law:

In terms of choice of law and venue it seems appropriate to typically use a mutually convenient location to resolve disputes, and to typically choose the law where the licensor resides or where the actual activity under the agreement will occur as the logical governing law for interpretation of the agreement. There will of course always be circumstances in which the clients will be prepared or desirous of alternate choices of law but in terms of keeping things simplest in their determination or application it is advisable to consider the jurisdiction of the licensor or the jurisdiction of agreement activity as the governing law for the agreement. It may not be advisable to agree to a waiver of jurisdiction in advance nor to force others to do so. This can become particularly problematic or important in a cross-border or international situation where there may be international or foreign jurisdiction local legal principles which are offended by the waiver in advance of jurisdiction.

Most intellectual property agreements benefit from the inclusion of a dispute resolution provision, as it seems that in many cases the IP dispute can be resolved without need to resort to litigation. The portions of the agreement dealing with dispute resolution should be consistent with the client's position on litigation and alternative dispute resolution -- it is certainly the case that inclusion of the dispute resolution clause subject to the client not wishing to do so may be a beneficial clause to deal with many types of termination or dissolution events without the need to resort to the cost or open airing of a dispute in a judicial determination or litigation.

Cross-border considerations:

A final issue for consideration in the drafting of intellectual property license agreements that expand into multiple international jurisdictions is that there are often times differences in local law which need to be reflected or at least considered

in the finalization of the licensing agreement. Many transactions may even include parties from multiple jurisdictions who are the subject of separate local applicable laws and the agreements in order to be fully binding and enabling need to accommodate local custom and requirement.

Effectiveness of a licensing strategy in foreign jurisdictions is also affected by the fact that the actual intellectual property ownership and rights regimes of multiple countries may be in play and that not every country treats every category of intellectual property rights the same way. It is advisable to factor both in terms of time and costs into the process of finalizing an intellectual property licensing agreement the need for local legal advice in the jurisdictions in question to ensure conformity of the proposed contract language with local law and also to ensure its enforceability and proper operation under local law and custom.

Due diligence issues:

There are various types of due diligence searches or opinions which might be undertaken in the scope or course of development of an intellectual property licensing agreement. These will depend to a degree on the types or categories of intellectual property rights which are involved in the agreement. Also as is the case with any other type of transaction due diligence, the nature and scope of the due diligence that you may be prepared or instructed to conduct could depend on the nature and scope of the transaction, the importance of the intellectual property or license to the overall transaction or the parties as well as the costs both in terms of time and money to complete the varying levels of due diligence which may be contemplated.

One of the key benefits of assembly of a complete inventory of intellectual property rights which are required within the scope of the transaction in question, is that counsel may identify by review of the documents associated with the rights of the

licensor therewith, cases in which third-party consents are required in order to effectively provide the rights or remedy proposed pursuant to the intellectual property licensing transaction in question. For example, if a licensor is providing a license to a licensee to the practice of a particular software and hardware combination, and the licensor in the course of development of the technology used a set of software development tools in respect of which they may have covenanted that they would not transfer or provide access to runtime libraries for the software tools in question without the consent of that vendor, it may be necessary to acquire a third-party consent in order for the licensor to properly convey all that they need to convey to the licensee [this is also something that could be dealt with in representations and warranties in some circumstances].

The parties to a licensing agreement may wish to prepare a freedom to operate search or opinion to search the intellectual property landscape in the jurisdiction or jurisdictions in question either at a specific party level or more generally, and then secure legal opinion as to whether or not they will be free to operate in that marketplace based on the contents of the search result.

Similar to a freedom to operate search, a licensee may wish to procure a validity opinion with respect to particular rights which they are licensing, to understand really the commercial value of what they are bargaining for in the agreement. If they are contracting for the exclusive right to distribute a particular product which is the subject of one or more patents in the marketplace and are paying consideration pursuant to the agreement based on their understanding of their exclusive market position vis-à-vis the patentee as well as the exclusive right to produce and manufacture or sell the products in the marketplace based upon the patent, if the patent is potentially invalid that may be an issue which either affects the interest of the parties to solidifying the deal at all, or at the very least may affect the compensation they are prepared to pay.

In the case of acquiring rights in a license to pending patent applications, rather than validity search the licensee may wish to undertake a search or opinion as to the patentability of the subject matter of the patent applications in question -- if the patentability of the invention is speculative, the parties may still be prepared to enter into the deal but the licensee may want to negotiate either for an exit milestone if the patents are not granted or at the very least may wish to negotiate for an altered payment formula if the patents do not issue.

Another point which can be verified at the due diligence stage, or in the representations and warranties, is to verify that the actual grantor or licensor actually has the capacity as owner of the rights in question to grant the license that they are providing in the negotiated agreement. Specifically, due diligence in this area often centers around the conduct of chain of title searches and the chain of title opinion which could verify either that the grantor does or does not have sufficient documentation to prove that they own the intellectual property rights in question or even if they do not own them that they stand properly licensed to in turn provide the necessary rights from a third-party owner for the licensee in the transaction in question to license or practice same. Chain of title searches often are also dependent upon statutory presumptions of ownership, which vary greatly by the type of intellectual property rights in question as well as by jurisdiction. For example in the Canadian context a copyright work which is prepared by an employee within the scope of their employment is assumed to be the intellectual property of the employer. This type of a circumstance however is the subject of the "work for hire" doctrine in the United States which is a slightly different rule. Statutory presumptions of ownership can change both based on the type of intellectual property rights in question as well as jurisdictionally, so due diligence can again become more complex in a multijurisdictional transaction.

Some of the due diligence which is involved in assessment of transactions related to unregistered rights can go into even further depth, since it is usually desirable in those circumstances to verify the details of common-law or unregistered usage or rights with respect to those marks in the jurisdictions in question.

Source documentation in due diligence reviews of this nature can include patent office prosecution file histories, inventories of agreements or contracts pertaining to the intellectual property rights and their ownership, litigation or protest files related to those intellectual property rights in the past, internal legal documents, or market research or other information regarding the strength or positioning of the intellectual property rights in question in the markets of interest. Public sources which can also be consulted might include government records or databases, commercial database services or other general Internet searches, and even issuer documents and filings if the licensor or party in question is publicly traded.

Transaction and Due Diligence Costs:

One of the key issues to consider in terms of due diligence in a transaction of this nature is the cost -- typically the licensee would probably incur the cost of due diligence that they conduct in advance of execution of the license agreement but one of the other categories of costs which needs to be considered or assessed is that the actual portfolio costs associated with the recordal of any licensor transfer of rights. For example, we will one or the other party to the agreement in incur significant agency and maintenance costs in respect of the intellectual property rights conveyed or encompassed by the license agreement and if so are the parties prepared for this.

Often times the licensee might covenant to pay the ongoing costs of maintenance or prosecution of an intellectual property portfolio with respect to rights they are becoming the exclusive beneficiary of-is the licensee prepared for the quantum of

that cost and have been the agreement maintained or obtained sufficient control over the shaping of the intellectual property protection process that they feel they are going to obtain good value for their money in this regard. Beyond agreeing to pay costs to continue actual patent or trademark applications etc., there is also the cost of recordal of license agreements or assignment documents before the trademark offices in question. In the largest circumstance of transfers of thousands of intellectual property registrations around the world, the cost of recordal of a transaction such as this could itself be in the millions of dollars and on that basis it will be advisable for the parties who will be incurring this cost to have some good budget estimates in hand in advance of pulling the trigger on the transaction and accepting liability for the cost.

Overall it is hoped that this paper provides at least a general idea of many of the high points in the preparation of a licensing arrangement, to provide counsel with ideas for some best practices as well as the types of information that can be used in aligning the interests of the parties to render a most effective intellectual property licensing scheme. Your questions in this regard are welcome.



**Cory J.
FURMAN**
Partner (Regina)

Direct Phone: 306.347.8492

Fax: 306.352.5250

Email: cfurman@mlt.com

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Cory Furman practices intellectual property law with a focus on domestic and foreign patent, trademark and copyright protection and enforcement, as well as international intellectual property portfolio strategy planning and the IP-related aspects of commercial transactions. As a registered patent and trademark agent, Cory represents clients before the Canadian Intellectual Property Office in various patent, trademark and copyright matters. His clients range from individuals to multinational corporations to education and research institutions. Much of Cory's general advising on portfolio strategies involves cross-border issues with the United States and elsewhere.

Beyond advising clients upon and assisting with the implementation of intellectual property strategies in Canada and abroad, Cory also provides transactional support to parties in various corporate finance and other commercial transactions including validity, infringement, freedom to operate and other due diligence topics.

Academic & Professional Qualifications

- Admitted to the Saskatchewan Bar
- LL.B. (Saskatchewan, 1994)
- B.A. (Saskatchewan, 1991)

Awards & Distinctions

- Selected as one of the *Best Lawyers in Canada* - Intellectual Property Law

Professional & Community Service

- Regina Chamber of Commerce - Director (since 2008)
- Saskatchewan Food Industry Development Center - Director (since 2008)
- Saskatchewan Trade & Export Partnership - Director (since 2007)
- Canadian Bar Association, Law Practice Management & Technology Section - National Chair (since 2006)
- International Trademark Association, Membership Services Subcommittee - Member (since 2004)
- Intellectual Property Institute of Canada - Member
- American Intellectual Property Law Association - Member
- Licensing Executives Society - Member
- Saskatchewan Angel Investors Network (SAINT) - Director and Founding Member
- Saskatchewan Advanced Technology Association - Member
- Canadian-German Young Leaders Forum - Member

Publications & Recent Presentations

- "Patent Business Strategies" Classroom presentation for University of Saskatchewan MBA program (March 2007)
- "Intellectual Property Exporting Tips" - Presented to Saskatchewan Trade and Export Partnership Regional Economic Advisory Council (June 2007)
- Law Office Technology Conference hosted by Saskatchewan Trial Lawyers' Association - Co-chair (Fall 2007)
- "Intellectual Property - Making Sure You Can Keep Your Cake" - Big Bad Wolf lecture series - Springboard West Innovations (November 2007)
- "Trademark and Business Name Conflicts" Presented at the Canadian Association of Corporate Legal Administrators Annual Meeting (August 2006)
- "Intellectual Property Basics". Speaker on behalf of the Canadian Intellectual Property Office and the Intellectual Property Institute of Canada, ongoing
- "Issues in Patent Portfolio Development: Computer Software and Business Methods". Client presentation delivered on an ongoing basis

Notable Mandates & Representative Work

- Represented Canadian client in international clearance and protection of new house brand following acquisition and merger of industry competitor (agricultural products and services).
- Lead trademark and IP counsel for development and expansion by Canadian company of international brand in footwear and clothing industry.
- Local counseling to Canadian clients involved in International Trade Commission proceedings in U.S.A.
- Coordinated strategy for Canadian client for repatriation of trademarks from alienated foreign distributor;
- Obtained summary judgment in favor of defendant in copyright infringement case on the basis that jewellery designs were properly subject of industrial design protection rather than copyright (*Pyrrha Design Inc. v. 623735 Saskatchewan Ltd. (cob SpareParts)*, (2004) 30 C.P.R. (4th) 310). Summary judgment overturned and trial ordered (*Pyrrha Design Inc. v. 623735 Saskatchewan Ltd. (cob SpareParts)*, (2004) 36 C.P.R. (4th) 432).
- Member of counsel team for defendant/applicant in *Dutch Industries v. Commissioner of Patents et al.* - seminal Canadian jurisprudence on entity status and patent validity issues arising therefrom. Trial division: *Dutch Industries Ltd. v. Canada (Commissioner of Patents)* (2001) 14 C.P.R. (4th) 499; Appeals: *Barton No-Till Disk Inc. v. Dutch Industries Ltd.* (2003) 24 C.P.R. (4th) 157. Leave to appeal to Supreme Court of Canada denied.