

ADVANCED LICENSING ISSUES

Presented by: Azad Virk

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Introduction



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Azad Virk is a shareholder in Stradling's Corporate and Technology Transactions practice groups.

Azad's practice focuses on a variety of corporate, commercial and intellectual property transactions, including the formation of startups, equity and debt financings, mergers and acquisitions, joint ventures, strategic alliances, intellectual property and technology transactions across multiple industries.

His clients include companies in the following industries:

- High technology
- Medical device
- Pharmaceutical
- Biotechnology

Azad practiced law in India before relocating to the United States, counseling clients on intellectual property issues and representing a diverse range of clients in intellectual property, corporate and technology-related litigation before various courts and tribunals.

Azad was named a "Southern California Rising Star" by *Super Lawyers* in 2015, 2016 and 2017.

- Interactive Format Today – Questions, Comments and Discussion Encouraged

- Illustrative Examples Drawn from Actual Contracts

Topics to be Covered

- Scope of License Grant
- Ownership and Related Rights
- Consideration
- Representations and Warranties
- Indemnification
- Limitation of Liability
- Term and Termination
- Assignability

License Grant

- **Context**

- What is the relationship?
- What is being licensed?
- What is the licensee allowed to do?

Distribution Agreement:

Patent License. Manufacturer hereby grants Distributor an exclusive, royalty-free license under the Patents to use, import, promote, market, distribute, sell, offer for sale and have sold Product in the Territory in accordance with this Agreement; provided, however, that Manufacturer reserves for itself the exclusive right to develop the Development Product under the Patents.

Understand the Scope

- Exclusive vs. Non-exclusive
 - If exclusive, what is the scope of exclusivity?
 - If exclusive, what are the diligence requirements?
- Sublicensable vs. Non-sublicensable
 - If sublicensable, what are the sublicensee's rights and obligations?
- Revocable vs. Irrevocable
- Transferable vs. Non-Transferable
- Field
- Territory

Ownership and Related Rights

- **Think of Future IP**
 - Licensor-developed Improvements
 - Licensee-developed Improvements
 - Who owns?
 - If licensee owns improvements consider:
 - License-back or Covenant not to Sue
 - Requirement to Disclose
 - Jointly-developed Improvements
- **Patent Prosecution and Maintenance**
- **Patent Enforcement**
 - Right (But No Obligation) to Bring Enforcement Claim
 - Right (But No Obligation) to Defend Infringement Claim
 - Recovery of Damages

Consideration

- Upfront License Fee
- Milestone Payments
- Royalty Payments
 - Net Sales
 - Reduced Royalties
 - No patent rights
 - Jointly-owned patent rights
 - Launch of a competitive product
 - Launch of a generic product
- Royalty Term
 - Country-by-Country
 - Product-by-Product
 - Expiration of patent rights or longer
- Royalty Stacking
 - Licensee licenses or acquires third party patent rights
 - Necessary or useful
 - Reduction in royalties by a certain percentage
 - Reduction in royalty by no more than a certain percentage

Royalty Stacking

If, during the Term, Licensee determines that it is necessary [or useful] to license or acquire from any Third Party any issued patent in order to practice the Licensed Patents for the development, manufacturing or commercialization of any Product in the Field in any country, an amount up to fifty percent (50%) of any royalties paid to such Third Party in respect of a Product in such country shall be deducted from royalties otherwise due to Licensor with respect to such Product in such country under this Agreement; provided that in no event shall the effect of such deduction [and any other adjustment] reduce the royalties otherwise payable to Licensor in respect of such Product in such country (prior to giving effect to any such deduction [and adjustment]) by more than an amount equal to fifty percent (50%) in any calendar quarter.

Representations and Warranties

- Authority to enter into agreement
- Ownership of the licensed intellectual property
- Full power and authority to grant licenses without third party consents
- Non-infringement of third party intellectual property rights
- Licensed patents are valid and enforceable
- No Open Source
- Qualifiers
 - Knowledge qualifiers
 - Qualifying remedies for breach of warranties
- Disclaimer of Warranties

Representations and Warranties - Sample

Ownership; Authority. Licensor represents and warrants that: (i) it is the owner of all copyrights, trade secrets, patents and other intellectual or industrial property rights in the Software; (ii) it has full power and authority to grant the rights granted pursuant to this Agreement to Customer with respect to the Software without the need for consent of any other person; and (iii) neither the performance of the services by Licensor nor the license to and use by the Customer of Software and associated documentation (including the copying thereof) will in any way constitute an infringement or other violation of any copyright, trade secret, trademark, patent, invention, proprietary information, nondisclosure or other rights of any third party.

Indemnification

- Scope of Indemnification
 - Third-party Claims
- Infringement of Third-party IPRs
 - Remedies
 - Carve-outs
- Breaches of Representations, Warranties and Covenants
- Claims relating to Licensed Products or Services
- Negligence
- Indemnification Procedures
- Indemnification Obligations under related Agreements
 - Business Associate Addendum

Indemnification

Provider shall indemnify, defend and hold harmless Customer and its Affiliates, and their respective successors and assigns (and its and their respective officers, directors, employees, sublicensees, customers and agents) from and against any third party claims and damages based upon (i) any allegation that any portion of the Subscription Service, Provider System, Documentation and/or Services, provided by Provider to Customer pursuant to this Agreement, infringes, misappropriates or violates any Intellectual Property right of any person or entity; (ii) a breach of Provider's representations and warranties in Section 11 above or in any Documentation; (iii) the failure by Provider to comply with applicable governmental laws or regulations; (iv) a breach of Provider's obligations under any Exhibit attached to this Agreement, (vi) a breach of Provider's security or confidentiality obligations as set forth in Sections 8 or 9, respectively; (vii) any claim relating to any act, omission, negligence or willful misconduct on the part of Provider, its personnel, subcontractors, and/or agents, including for personal injury, death, or damage to property; (viii) any claim of a Provider subcontractor against Anthem; and (ix) any act or conduct by a subcontractor based on a claim falling within the foregoing categories (i) through (viii), inclusive.

Indemnification Remedies

Notwithstanding anything else contained in this Agreement to the contrary, if the allegedly infringing Product is held to constitute an infringement, or in Licensor's opinion, any such Product is likely to become infringing and its use enjoined, as a result of Licensee's use of the Licensed IP and Technology, Licensor **may**, at its sole option and expense: (a) procure for Licensee the right to Commercialize the Product; (b) replace or modify the affected Product to make it non-infringing; or (c) if (a) and (b) are not commercially practicable, terminate the licenses granted hereunder with respect to the affected Product and notify Licensee to discontinue the Commercialization of such Product.

Indemnification Carve-outs

Licensor shall have no [indemnification] obligation under this Section or otherwise with respect to any infringement claim that arises out of or relates to: (a) accused infringement that does not relate to [Licensee's Field]; (b) combination, operation or use of the affected Product with any other software, hardware, technology, data, or other materials, if the infringement would not have arisen but for such combination, operation or use; (c) unauthorized use of the Product or use for a purpose or in a manner for which Product was not designed or use after Licensor notifies Licensee to cease such Commercialization due to a possible or pending infringement claim; or (d) any modifications to the Product made by any person other than DHL or its authorized representatives, if the infringement would not have arisen but for such modifications.

Limitation of Liability

- **Disclaimer of Certain Damages**
 - Limit liability to Direct Damages
- **Limit Liability to a Dollar Amount**
 - Ties to revenue, insurance limit or arbitrary cap
- **Carve-outs**
 - Breach of License Grant
 - Breach of Confidentiality Obligations
 - Gross negligence and willful misconduct
 - Indemnification
 - Only for Third-party Infringement Claims
 - Special Cap

Disclaimer of Damages

EXCEPT WITH RESPECT TO LICENSOR'S OBLIGATIONS UNDER THE CONFIDENTIALITY AND INDEMNIFICATION ARTICLES, OR ANY DAMAGES CAUSED BY GROSS NEGLIGENCE, FRAUD OR WILLFUL MISCONDUCT OF LICENSOR, LICENSOR'S AFFILIATES, AUTHORIZED RESELLERS AND THEIR RESPECTIVE SHAREHOLDERS, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, SUCCESSORS, AND ASSIGNS, TO THE MAXIMUM EXTENT PERMITTED UNDER APPLICABLE LAW, IN NO EVENT SHALL EITHER OF THE PARTIES HERETO BE LIABLE TO THE OTHER FOR ANY SPECIAL, INCIDENTAL, INDIRECT, CONSEQUENTIAL, EXEMPLARY OR PUNITIVE DAMAGES, INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOSS OF REVENUES OR LOST OR ANTICIPATED PROFITS, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER OR NOT THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

Special Indemnification Cap

Notwithstanding the foregoing, (i) Licensor's aggregate liability for indemnification obligations under [Article IX] shall not exceed the aggregate amounts paid or payable to such Licensor pursuant to this Agreement in the twelve (12) month period preceding the event giving rise to the claim for damages, and (ii) Licensee's aggregate liability for indemnification obligations under [Article IX] shall not exceed Fifty Million Dollars (\$50,000,000) plus the amount of any Royalties or Other Royalties paid to Licensors by Licensee.

Residuals

Additionally, notwithstanding anything contained herein to the contrary, Group Member and the Alliance may use Residuals for any purpose whatsoever, including without limitation use in development, manufacture, promotion, sale and maintenance of its products and services. For purposes hereof, the term “Residuals” means any information related to a Technical Contribution that is retained in the unaided memory of the Group Member’s and the Alliance’s employees, contractors, or affiliates (or personnel thereof) who have had access to a Proponent’s Confidential Information pursuant to the terms hereof. A person’s memory is unaided if the person has not intentionally memorized the Confidential Information for the purpose of retaining and subsequently using or disclosing it.

Notwithstanding any provision in this Agreement to the contrary, each party will be free to use in its business and to disclose that information in non-tangible form which may be retained in the unaided memories of employees, contractors or agents of that party who had access to the information in the normal course of performing their duties under this Agreement, including data processing techniques, concepts, methods, designs, ideas and know-how contained therein, subject to the disclosing party’s Intellectual Property Rights in such information. A person’s memory is unaided if the person has not intentionally memorized the relevant information for the purpose of retaining and subsequently using or disclosing it for purposes unrelated to this Agreement and has not refreshed recollection in anticipation of, or in conjunction with the use of said information.

Term and Termination

- **Term**
 - Patent term or longer
 - Step-down in royalty after patent term

- **Effect of Expiration**
 - License expires
 - License continues with a reduced royalty
 - License becomes royalty-free and perpetual

Termination

- **Cause**

- Material Breach
- Insolvency
 - Licensor's Insolvency
 - Section 365(n) of the Bankruptcy Code
- Challenge of Licensed IP
- Breach of Diligence Obligations

- **Licensee's Right to Terminate for Convenience**

- **Effect of Termination**

- License terminates immediately or wind-down period
- Regulatory Approvals
- Sublicenses

Assignability

- Non-assignable
 - Does the definition include Change of Control?
- Non-assignable with Exceptions
 - To Affiliates
 - In connection with Change of Control
- Ability to Terminate
 - Change of Control Generally
 - Change of Control with a Competitor
- License Buy-Out

THANK YOU

Questions?

NEWPORT BEACH – HQ

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