Technology Licensing: Strategic Issues Every Licensor and Licensee Should Consider*

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Chapter 64

TECHNOLOGY LICENSING: STRATEGIC ISSUES EVERY LICENSOR AND LICENSEE SHOULD CONSIDER

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§ 64.1 INTRODUCTION TO TECHNOLOGY LICENSE AGREEMENTS

In our technology-driven world, high technology and bioscience companies, as well as many universities and similar research institutions, are constantly developing new and more innovative products, services, and other types of technologies. The patent rights, copyrights, trade secrets, trademarks, and other intellectual property rights (collectively referred to as intellectual property rights) embodied in or arising out of these innovative technologies are often some of the most important assets for these entities.

For many high technology and bioscience companies, from startups to global companies, the ability to license in new technology from other entities, or license out their entity's new innovations for royalties, is often an essential business strategy for their commercial endeavors. For universities and other research institutions, licensing out inventions developed in their laboratories is a critical step in commercializing that technology. Thus, technology license agreements are essential for all of these technology-based entities.

A technology license agreement can generally be defined as a contract (the license agreement) between the owner of, or party with rights to control, certain intellectual property rights (the licensor) and a party that will be granted rights to use those intellectual property rights (the licensee) without resulting in the transfer of the underlying ownership rights in the intellectual property rights from the licensor to the licensee.

A typical license agreement grants the licensee a right to use the applicable intellectual property rights to make, market, distribute, sell, or otherwise use (often called "exploit") the licensor's products, goods, services or other types of technology (the licensed technology).

This chapter outlines key provisions in a license agreement that every licensor and licensee should consider before entering into this contractual relationship. To provide additional guidance to licensing attorneys as they negotiate and prepare a license agreement, the author also provides, for certain strategic issues, some perspective or viewpoints of a licensor versus a licensee.

§ 64.2 FACTORS LICENSORS AND LICENSEES SHOULD CONSIDER BEFORE GRANTING OR TAKING A TECHNOLOGY LICENSE

There are multiple economic and other business reasons that motivate a licensor and licensee to enter into a license agreement. In § 64.2-1, this chapter addresses some of the key advantages a licensor may gain by granting a license in its licensed technology, as well as identifying some of the risks a licensor might face by granting that license. In § 64.2-2, this chapter then outlines some of the main benefits a licensee might receive by obtaining a license in certain licensed technology, as well as addressing some of the risks a licensee should consider before accepting that license.

§ 64.2-1 Pros and Cons of a Licensor Giving Out a Technology License (Outbound License)

The following bullet points outline the key advantages or reasons for a licensor to grant a license (also called giving a license) to the licensee to allow it to use the licensor's licensed technology (often called an outbound license):

- Granting a license increases the licensor's revenue through royalties, with potentially minimal further expenditures by the licensor for more research and development.

- It may help the licensor penetrate a new market (geographic or industry sector) through the licensee's efforts even though the licensor may not have directly entered that new market.
- The licensor may obtain technology back from the licensee through a grant back or cross-license or from knowledge sharing, such as new advances made by the licensee in the practice of the licensed technology.
- It may assist the licensor in testing the market for its technology through the licensee (but with potentially lower cost and risk to the licensor).
- It helps to increase the good will for the licensor's technology, even though the licensor is not directly marketing the technology in that new market.
- It allows the licensor to evaluate the licensee as a new potential business partner.

The following bullet points outline some major risks or disadvantages a licensor faces by giving out a license:

- The licensee could be the licensor's future competition in this technology space—thus, the licensor risks disclosing its critical know-how and confidential information to the licensee and effectively educating it to become a new competitor.
- It could negatively impact the licensor's ability to engage in future research and development needed for the next generation technology if the licensor relies too heavily on the licensee for that purpose.
- The licensor's return on investment (ROI) from its technology may be limited to receipt of royalties, which in turn may be limited by the fact that the licensee (who may need to spend more funds on research and development and marketing) may negotiate to keep more of the profits for itself and, thus, limit the royalties paid to the licensor.

- A poorly-performing licensee could mean the licensor's technology is not generating the market penetration and overall ROI that the licensor expected.
- An unqualified licensee could damage the reputation of the licensor's technology and company due to the poor way the licensee is handling the licensor's technology.
- The licensor may have underestimated the administrative burden it will sustain due to the efforts it must take to monitor the licensing relationship.

§ 64.2-2 Pros and Cons of Licensee Taking a Technology License (Inbound License)

The following bullet points outline the key advantages or reasons for a licensee to obtain a license (also called taking a license) in a licensor's licensed technology (often called an inbound license):

- Obtaining a license assists the licensee in quickly updating or enhancing its existing technology or product line, and helps the licensee fill in the gaps in its technology development without the major cost and long timelines associated with its independent research and development to achieve that same technology.
- It helps to give the licensee exposure and access to new technical expertise through the licensor's know-how.
- It increases the licensee's presence and leverage in the marketplace, and may help to make the licensee's product or service lines look more extensive to outside parties than they would look if the licensee had to independently develop the licensed technology.
- It allows the licensee to develop a long-term relationship with a potentially critical licensor who has valuable technology, including potentially future technology.

The following bullet points outline some major risks or disadvantages a licensee faces by taking a license:

- The license fees may be too high in view of additional research and development or marketing needed to commercialize the licensed technology. This may cause the profit margins to be too narrow to make it commercially reasonable to try to sell the applicable products or services, particularly if the licensor's technology needs more expensive research and development or costly marketing.
- The licensee's competition may have found a less expensive technical alternative than the licensed technology, yet the licensee is now stuck paying for the licensor's more expensive technology.
- The licensee risks exposing its valuable and critical know-how or other confidential information to the licensor, who could be a competitor of the licensee.
- Partnering with an inappropriate licensor could damage the licensee's business reputation.

§ 64.3 GRANTING CLAUSE

The granting clause is one of the most critical provisions in a license agreement because it sets forth the heart of the licensing arrangement. This provision contains the license that actually bestows on the licensee the authority or right to use or otherwise exploit the delineated intellectual property rights to permit the licensee (depending on the terms of the contract) to manufacture, market, distribute, sell, or otherwise use the licensed technology. The granting clause should precisely identify these rights along with any limitations or conditions on the extent or manner of using these rights.

When drafting the granting clause, a licensing attorney normally should consider including these key terms to precisely set forth the rights given to the licensee and the parameters for the licensee's permitted use:

(1) Delineate the exact intellectual property rights being granted to the licensee.

(2) Precisely state the authorized uses of the delineated intellectual property rights in association with the licensed technology—such as authorizing use of specific types of intellectual property rights to permit the licensee to make, use, or sell the licensed technology.

(3) Identify any "field of use" or "scope" limitations on the licensee's permitted use of the intellectual property rights and the associated licensed technology.

(4) State whether the license is exclusive or nonexclusive.

(5) State whether the license is royalty-bearing or royalty-free, or whether it is subject to any other types of consideration.

(6) State whether the licensee may grant further licenses (namely sublicenses) to third parties, including the parameters for such rights and the reporting of the same to the licensor.

(7) Identify any geographic, territorial, marketplace, trade channel, or similar parameters that will be imposed on the exercise of the license grant.

(8) State any time limits on the license grant—often called the term of the license.

(9) State whether the license grant is otherwise irrevocable.

(10) State any other key limitations on the license grant.

For a licensing attorney to draft an appropriate granting clause, the attorney needs to understand the parties' business plan regarding how the licensee will be permitted to use or otherwise exploit the licensed technology. That understanding will allow the licensing attorney to properly identify which of the licensor's intellectual property rights the licensee will need to carry out these business intentions and also will allow the licensing attorney to draft the appropriate parameters and limitations on the rights being granted to the licensee.

The remaining portions of this chapter will address in more detail many of the above components of the granting clause.

§ 64.4 PRECISELY DEFINE EACH OF THE INTELLECTUAL PROPERTY RIGHTS BEING GRANTED

§ 64.4-1 Numerous Intellectual Property Rights May Need to Be Licensed in Same License Agreement

Because of the complexity and interoperability of modern technology, many license agreements may need to contain hybrid licenses that grant the licensee rights in multiple intellectual property rights to allow the licensee to exploit the licensed technology in accordance with the parties' business plans. Thus, a license agreement may need to include a grant to use one of more of the following rights: (1) patent rights, (2) copyrights, (3) trademarks, (4) trade secrets (sometimes also called know-how), or (5) any other form of intellectual property right.

It is the task of the licensing attorney to identify each of the particular intellectual property rights that need to be included in the granting clause in the license agreement. This will depend on what rights the parties intend the licensee to receive in order to use or otherwise exploit the licensed technology.

§ 64.4-2 Precisely Identify Each Sub-Right or Economic Right of Each Intellectual Property Right Being Licensed

In addition to identifying each intellectual property right in the granting clause, a licensing attorney may need to get more granular in the granting language by specifying the exact sub-rights within a particular intellectual property right (often referred to as the "economic rights" with regard to patents and copyrights). (See § 64.4-2(a) and § 64.4-2(b) for discussion of the economic rights of patent holders and copyright owners, respectively). To do this, the licensing attorney must fully understand how the parties intend the licensee to utilize each particular intellectual property right, including the underlying sub-rights or economic rights for each intellectual property right. Once the licensing attorney understands this business arrangement, the attorney can more precisely draft each of the specific rights being granted to the licensee.

> EXAMPLE: Assume that under the parties' business arrangement the licensee will be granted a copyright license in the

licensor's copyright-protected software program with the understanding that the licensee will be permitted to create customized modifications of that program for the licensee's end users. In this case, a licensing attorney may want to specifically include the right to create "derivative works" (one of the copyright owner's economic rights) in the granting clause.

Thus, in general, it is advisable to be fairly specific with regard to the sub-rights in each of the intellectual property rights when drafting the granting clause.

§ 64.4-2(a) Economic Rights of Patent Holders That Could Be Included in Grant

The rights granted to a patentee under U.S. patent law (often called the patent holder's economic rights) are essentially the right to "exclude others" from exercising the following rights:

(1) making the invention;

(2) using the invention;

(3) offering for sale, or selling the invention; or

(4) importing the invention into the United States.

35 USC § 154(a)(1).

The rights to make, use, or sell an invention are critical rights of a patent holder, and, thus, the licensing attorney must understand to what degree some or all of these rights are actually needed by the licensee to exploit the licensed technology.

> EXAMPLE: Assume a licensee will be granted only a right to use the licensor's patent rights inside the licensee's company (i.e., internally) for the limited purpose of manufacturing a finished product, which, in turn, the licensee must then deliver back to the licensor for distribution and sale only by the licensor. In this instance, the licensee may only need to be granted a limited patent license to make the licensed technology in the territory on behalf of the licensor.

§ 64.4-2(b) Economic Rights of Copyright Owner That Could Be Included in Grant

The following are the key enumerated rights (often called the economic rights) granted under U.S. copyright law to the owner of a copyright:

(1) reproducing the work in copies;

(3) preparing derivative works based on the copyrighted work;

(3) distributing copies of the work to the public;

(4) performing certain works publicly; and

(5) displaying certain works publicly.

17 USC § 106.

There is little incentive for a licensor to give a licensee more rights in the licensor's copyrights than those needed by the licensee to exploit the licensed technology. Using the right to prepare a derivative work as an illustration, it is usually in a licensor's interest to draft a granting clause that clearly states whether the licensee can make any derivative works, because licensors typically have a self-interest in controlling who can make any revisions, updates, or new versions of its copyright-protected works.

On the other hand, a licensee normally wants as broad a copyright license grant as possible to avoid the risk of using a copyright-protected work beyond the agreed-on scope of the copyright grant. Returning to the example of the right to prepare derivative works, if a license agreement contains only a general copyright grant that does not specifically delineate a right to prepare derivative works, a prudent licensee may not want to assume this general grant necessarily bestows on the licensee the particular right to prepare derivative works. Thus, it is advisable for the licensee to include in the granting clause an affirmative right to create derivative works.

§ 64.4-3 Considerations When Granting Rights in Other Intellectual Property Rights

If a license agreement contains licenses in intellectual property rights beyond patent and copyright licenses, the parties must also address the scope of the licenses being granted in these additional intellectual property rights.

With regard to trademarks, a trademark owner has the right to use the applicable trademark in association with certain goods or services. The scope of a trademark license should address, at a minimum, (1) the precise trademarks being licensed (and, if appropriate, identifying common-law trademarks compared to those marks registered with the United States Patent and Trademark Office), and (2) the particular goods or services with which those trademarks may be associated.

Because trade secrets can be in both a tangible form and an intangible form, it is important to draft a clear and detailed description of the applicable trade secrets covered by the license. The parties should avoid generalities when describing trade secrets. Thus, and by way of example, parties might identify the title of a particular manual or laboratory notebook that contains a particular trade secret, or the specific files on the licensor's server where certain trade secrets have been uploaded and stored. Also, the parties will have to agree on the permitted scope of use of the trade secrets. Trade secrets that are included in larger technology license agreements are often intended to be used solely to support the licensee's exercise of the primary patent or copyright licenses in that license agreement.

§ 64.5 PRECISELY IDENTIFY SPECIFIC LICENSEE RECEIVING LICENSE GRANT

A threshold issue that must be addressed during the negotiation of every license agreement is properly determining which entity will be the actual licensee receiving the license grant. In other words, the parties must precisely determine the exact legal entity or entities that will execute the contract and, thus, will create the direct privity of contract between the licensor and licensee.

§ 64.5-1 Licensor's Perspective

Because a license agreement is a contract entered into by parties who intend to be legally bound by that contract, a licensor typically wants to precisely identify the specific legal entity that will be the licensee. This is a fundamental issue from a licensor's perspective, because the licensor needs legal privity of contract to enforce the terms and conditions of the license agreement against each appropriately identified licensee. By ignoring these issues during the negotiation of the license agreement, a licensor runs the risk that a licensee may assume its subsidiaries or affiliates are naturally included in the meaning of "licensee."

§ 64.5-2 Licensee's Perspective

Licensees often take the position that they must include their subsidiaries or other affiliates, particularly those worldwide, in the meaning of "licensee," because the licensee needs the flexibility to create or use these entities to effectively commercialize the licensed technology. Licensees also often take that position that it's not realistic to require the licensor's prior written consent before using each of these affiliated entities, particularly those in foreign jurisdictions. A common compromise approach is to require the licensee to notify the licensor of each subsidiary and affiliate of the licensee that will exercise the licensing rights and to impose an obligation on the licensee that it will require each of these subsidiaries and affiliates to be bound by the terms of the license agreement (to the same degree the licensee is bound). The licensor should consider whether the inclusion of the subsidiaries or other affiliates will create an expansion of the rights granted and should include additional fees for such use.

§ 64.6 SUBLICENSING RIGHTS

An issue related to identifying the exact licensee entity (*see* § 64.5 to § 64.5-2) is whether the licensee will have a right to sublicense its rights to third parties. A sublicense is typically defined as giving the licensee the authority to grant a third party all or a portion of the licensee's rights to use some or all of the intellectual property rights needed to exploit the licensed technology. Even though a licensee may have this sublicensing right, the licensee remains primarily bound by, and continues to be a party to, the license agreement.

As a general rule, a licensee will not have an automatic right to sublicense its rights in a license agreement to other parties unless and until the licensee obtains express permission to do so from the licensor. The Ninth Circuit has held that this rule, called the sublicensing rule, applies to trademark, copyright, and patent licensing, and has stated policy reasons for preserving the licensor's control over sublicensing in the absence of express permission to the contrary.

In *Miller v. Glen Miller Prods., Inc.*, 454 F3d 975, 978 (9th Cir 2006), the Ninth Circuit held that the above-described sublicensing rule applied to trademarks because the trademark owner "has the duty to control the quality of goods sold under its mark, [so] it must have the right to pass upon the abilities of new potential licensees" (adopting the reasoning of the district court; *Miller v. Glen Miller Prods., Inc.*, 318 F Supp 2d 923, 933 (CD Cal 2004), *aff'd*, 454 F3d 975 (quoting J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:33 (4th ed))).

The Ninth Circuit in *Gardner v. Nike, Inc.*, 279 F3d 774, 778 (9th Cir 2002), held that the sublicensing rule applied to copyrights to balance the "strong reluctance to allow a monopolization of works" against "the necessity of preserving the rights of [copyright] authors . . . in order to stimulate creativity" (quoting *Harris v. Emus Records Corp.*, 734 F2d 1329, 1334 (9th Cir 1984)).

In *In re CFLC, Inc.*, 89 F3d 673, 679 (9th Cir 1996), the Ninth Circuit held that the sublicensing rule applied to patents because a licensor selected the licensee on account of their personal ability or qualifications to make or furnish a market for the products at issue, so the patent owner could otherwise "lose the very important ability to control the identity of its licensees" (emphasis omitted).

Thus, a prudent licensee should not assume it has an automatic right to sublicense its rights in the licensed technology to any third party absent an express contractual authorization to do so and provisions delineating the scope of any such sublicensing right.

§ 64.6-1 Licensor's Perspective

Licensors often take the position that they have an economic interest in restricting sublicensing or, if sublicensing will be permitted, placing specific conditions on which parties can quality as sublicensees. From a licensor's perspective, it negotiated the terms of the license agreement based on, and after evaluating, the licensee's particular financial strength, business acumen, long-term viability, and other commercial risk factors associated with that particular licensee. The licensor is not normally in a position to effectively evaluate these factors with regard to a sublicensee to be picked in the future by the licensee. For these reasons, licensors are often reluctant to agree in advance to substitute a known licensee with an unknown sublicensee. Instead, licensors normally want to consent to any sublicensing. If that is deemed too restrictive by a licensee, then a licensor's typical next position is to require notice before any sublicensing, along with an explanation of the purpose of the sublicensing (i.e., a sublicensee is needed to manufacture, distribute, or sell the products or services).

§ 64.6-2 Licensee's Perspective

Licensees often take the position that sublicensing is appropriate, or even necessary, from a business perspective to allow the licensee to meaningfully manufacture, market, distribute or sell the products or services that will be based on the licensed technology. From the licensee's perspective, it needs this business flexibility to commercialize the licensed technology in a profitable way. Licensees often resist having to obtain the prior consent of the licensor before sublicensing because, from the licensee's perspective, this requirement can stifle their ability to quickly utilize the business partners (i.e., subcontractors, manufacturers, distributors, etc.) the licensee needs to effectively commercialize the licensed technology in the territory.

§ 64.7 DEFINE PARAMETERS OF LICENSE GRANT ("FIELD OF USE" OR "SCOPE")

§ 64.7-1 Define Parameters of License Grant

To draft an appropriate granting clause, the parties must negotiate to what degree the licensee will be permitted to use the licensed technology. For example, will the licensee be permitted to use it for all possible commercial purposes now in existence and those that may arise in the future? Or, will the licensee be limited to specific usages? Thus, the "field of use" or "scope" limitation (collectively referred to as the "field of use" or "field-of-use provision") in the license grant is a critical provision.

In general, the field-of-use provision sets forth the parameters or other limitations on the permitted use of the intellectual property rights and the associated licensed technology. This provision essentially defines the range or boundaries of the license granted to the licensee. It also helps to define the value of what the licensee will receive under the license grant.

Numerous types of use restrictions can be included in the field-of-use provision. Many factors unique to each licensing arrangement impact how these use restrictions might be drafted, including (1) the types of intellectual property rights being licensed, (2) uses the licensor must reserve for its own use or for licensing out to others, and (3) other specific business factors in the particular transaction between the licensor and licensee.

As a general rule, it is usually in both parties' best interest to avoid ambiguity about the parameters of the field-of-use provision by clearly defining this term during the negotiation of the license agreement.

§ 64.7-1(a) Licensor's Perspective

A prudent licensor normally prefers the parameters of the field of use to be narrow and precisely worded to (1) avoid disputes with the licensee, and (2) be consistent with the licensor's other plans for using its licensed technology, including any uses being reserved for the licensor itself or for the licensor's plans to grant separate licenses to others with ostensibly different fields of use or scope rights.

To identify the appropriate field of use for the grant, a licensor may want to require a licensee to deliver a development or business plan that provides details about the licensee's intend use of the licensed technology. Such a plan allows the licensor to better understand, and then more precisely draft, the appropriate field of use in the granting clause.

§ 64.7-1(b) Licensee's Perspective

From the licensee's perspective, a broad field of use is likely to its benefit because it arguably provides the licensee with greater freedom and leverage to use the licensed technology without major concerns that its intended use will go beyond the parameters of the license grant. For example, a broad field of use in an exclusive license could give the licensee leverage to assert superior rights in any dispute with the licensor arising from use of the licensed technology by the licensor itself or by the licensor's other licensees if these uses are too similar (in the licensee's viewpoint) to the licensee's field of use.

Notwithstanding the above, a prudent licensee still wants to make sure the field of use is appropriately defined so that it adequately covers the licensee's intended use of the licensed technology. The concern here is that some licensees may mistakenly believe that a vaguely worded field-of-use provision will automatically be to its benefit on the theory that a court will broadly interpret such a provision. However, this is not always an appropriate assumption, because a court could narrowly interpret an ambiguous provision to the detriment of the licensee.

§ 64.7-2 Potential Consequences for Licensee's Use outside Permitted Field of Use

§ 64.7-2(a) Use outside Field of Use of a Patent Grant May Not, Per Se, Be Material Breach of Contract

An issue related to defining the field of use (*see* § 64.7-1 to § 64.7-1(b)) is whether the field-of-use restrictions in the granting clause automatically impose an affirmative contractual obligation on the licensee to refrain from acting outside that defined field of use and what the consequences are if the licensee actions exceed that limitation.

In *MACOM Tech. Solutions Holdings, Inc. v. Infineon Technologies AG*, 881 F3d 1323, 1329 (Fed Cir 2018), the granting clause gave MACOM an exclusive license in Infineon's patented technologies "in the field of use *only*" (emphasis added). MACOM's activities exceeded that specified field of use, which Infineon, as licensor, considered a material breach of contract and, thus, Infineon terminated the agreement.

The Federal Circuit, upon analyzing the granting clause, stated that the licensor "ask[ed] too much of the word 'only'" in that clause. *MACOM*, 881 F3d at 1329. The Federal Circuit found that the granting clause—including the word "only"—simply conveyed a license to the licensee, which is in essence a promise by the licensor not to sue the licensee. The court found that the "only" language did not (in and of itself) constitute an affirmative covenant or obligation by the licensee not to exceed the field of use. The court also found that any implied covenants of good faith and fair dealing do not impose any such express contractual obligation on the licensee. *MACOM*, 881 F3d at 1329–30.

The Federal Circuit noted that although the "only" language did not affirmatively preclude the licensee from operating outside the field of use and did not give the licensor a breach-of-contract cause of action, the licensor still could sue the licensee for patent infringement for unlicensed infringing activity outside that field of use. *MACOM*, 881 F3d at 1329.

§ 64.7-2(b) Drafting Recommendations after *MACOM*

In view of the *MACOM* decision (*see* § 64.7-2(a)), licensors should not assume that "in the field of use only" language in the granting clause will, in and of itself, be sufficient to (1) impose an affirmative legal obligation on the licensee not to exceed the field of use, and (2) if exceeded, provide the licensor with a right to terminate the license agreement on the grounds of a material breach of contract by the licensee.

Instead, licensors should include a provision that clearly imposes an affirmative obligation on the licensee not to exceed the limits of the permitted field of use, including penalties for exceeding these limits (such as giving the licensor a termination right). This type of affirmative obligation gives the licensor the right to sue for breach of contract, rather than merely relying on rights to sue for patent infringement.

§ 64.8 IDENTIFY THE TERRITORY: GEOGRAPHIC OR OTHER MARKET LIMITATIONS ON EXERCISE OF THE LICENSE

A granting clause often limits the exercise of the license to a particular "territory." The territory is typically a geographic area within which the licensee is granted its right to exploit the licensed technology in accordance with the terms of the contract.

The parties should be precise when identifying any geographic area to avoid ambiguity and, thus, potential disputes between the parties. For example, the term "Southern Europe" could be subject to multiple interpretations between the parties about which countries are actually included in that territory. Thus, in this example, it is advisable to name the specific nations, such as "France, Italy, and Spain."

The meaning of "territory" could also have additional qualifiers that further refine any geographic areas, such as designating the type of facility in the area (e.g., "pediatric hospitals" or "oil refineries" in the area) or specific industry activities or events that take place in the area (e.g., "oncology clinical trials" or "semiconductor industry conferences" in the area).

§ 64.8-1 Licensor's Perspective

A licensor needs to take the time to understand the licensee's plans for exploiting the licensed technology before agreeing to a territory, particularly one with a broad spectrum (such as a "worldwide" territory). The licensor should require the licensee to prepare a development or commercialization plan to ascertain if the licensee can realistically commercialize the licensed technology in the entire territory requested by the Licensee. Particularly with exclusive licenses, the licensor wants to avoid situations in which the licensee cannot feasibly generate revenue in the entire territory, thus denying the licensor the maximum amount of royalties it might otherwise receive if it granted these rights to a more appropriate licensee.

§ 64.8-2 Licensee's Perspective

In some instances, such as with early stage licensed technology, a licensee may believe obtaining as broad a territory as possible (even a "worldwide" territory) is always to its advantage on the theory that a broad territory constrains the licensor's ability to grant similar rights to the licensee's competitors. However, a licensee should first evaluate its ability to realistically commercialize the licensed technology throughout the entire territory. This is particularly important if the license agreement imposes any performance criteria or milestones on the licensee, since those standards could bind the licensee in the entire territory. See § 64.10 to § 64.10-3 for discussion of a licensee's milestones or performance criteria.

§ 64.9 EXCLUSIVE OR NONEXCLUSIVE LICENSE

A license can grant exclusive or nonexclusive rights to the licensee. The fundamental difference between these two types of license grants focuses on the extent to which the licensor is contractually permitted, or restricted, from granting similar licenses to others or from reserving for itself use of the licensed technology.

A true nonexclusive license does not impose any restrictions on the licensor's use of the Licensed Technology. Thus, the licensor would be free to use the licensed technology itself and also license the same rights to any other party, even inside the field of use or territory granted to the licensee.

On the other end of the spectrum, a true exclusive license generally means the licensor is precluded from licensing the applicable rights to other parties, and the licensor would be prohibited from using for itself the licensed technology. Exclusive licenses may have limitations based on the field of use granted to the licensee or based on the geographic or market territory within which the licensed technology may be manufactured, marketed, distributed, sold, or otherwise used by the licensee.

§ 64.9-1 Does Grant of an Exclusive License Automatically Preclude Use by Licensor?

An issue related to the issue of whether to grant an exclusive or a nonexclusive license (*see* § 64.9) is whether the grant of an exclusive license to a licensee automatically bars the licensor from using the licensed technology within the scope of that exclusive license grant. The Ninth Circuit, in *Cutter Laboratories v. Lyophile-Cryochem Corp.*, 179 F2d 80, 93 (9th Cir 1949), addressed this issue with regard to exclusive patent grants when it held that "[a]ny patent owner who grants an exclusive license, reserving no right except to collect royalties, cuts himself off from practicing the art claimed in the patent until the patent has expired." More recently, the Northern District of California, in *Levi Case Co., Inc. v. ATS Products, Inc.*, 788 F Supp 428, 431 (ND Cal 1992), stated that "[t]he grant of an exclusive license excludes even the patent holder himself from exercising the rights conveyed by the license."

Thus, if a licensor needs to use the licensed technology itself, that licensor should include a provision in the license agreement that explicitly reserves that right for the licensor, even (as needed) inside the field of use or territory granted to an otherwise exclusive licensee. This affirmative clause effectively serves as an exception or carve-out to the otherwise broad exclusive right granted to that licensee.

§ 64.9-2 Licensor's Perspective

A licensor should evaluate the implications of granting an exclusive license, particularly taking into consideration the extent of the territory being granted. A licensor may want to require the licensee to first prepare and deliver a business plan explaining how the licensee will monetize its exclusive rights. The licensor should not be too quick to agree to an exclusive license, particularly a global one, if the business plan cannot demonstrate the Licensee's ability to generate sufficient revenue to justify these exclusive rights. In addition, when granting exclusive rights, the licensor must be sure to reserve any rights to itself to use the licensed technology; otherwise the exclusive License grant could be interpreted as prohibiting any such use by the licensor. (See § 64.9-1 for a discussion of this topic).

§ 64.9-3 Licensee's Perspective

Licensees often seek to obtain an exclusive license on the theory that they need this protection in exchange for the substantial money, time, and resources the licensee will spend for additional research and development, extensive marketing, or obtaining any required regulatory approvals in the United States and overseas. Thus, anything less than an exclusive license, from the viewpoint of the licensee, takes away from the licensee's incentive to expend that money, time, and resources. However, licensees should realize that if they bargain for an exclusive license, the licensor will likely seek to obtain more stringent licensee performance criteria or milestones as a condition of the licensee's retention of that exclusive right. See § 64.10 to § 64.10-3 describing the licensee's performance criteria or milestones.

§ 64.10 LICENSEE'S PERFORMANCE CRITERIA OR MILESTONES

License agreements often contain provisions that impose certain minimum performance criteria or standards, often called milestones, on the licensee as a condition of retaining the license rights.

In some agreements, the parties may negotiate very specific milestones that the licensee must achieve, often within an agreed-on time period. While the types of specific milestones can vary widely depending on the particular business relationship between the parties, specific milestones often fall into the following categories:

(1) The licensee must develop a prototype of a product or have a product launch by a specific date.

(2) The licensee must reach specific revenue amounts from the sale of the products or services.

(3) The licensee must obtain certain percentages of market share or certain geographic penetration for the goods or services.

(4) The licensee must spend certain minimum amounts of funds for research and development, marketing, or promotion of the products or services.

(5) The licensee must file for or obtain approval from certain regulatory authorities, such as U.S. Food & Drug Administration filings and approvals.

(6) The licensee's company must hire new officers or personnel to expand the company's management expertise.

(7) The licensee's company must raise certain levels of new capital investment to demonstrate the licensee's viability as an ongoing business.

Some parties may find it difficult to reach consensus on the above specific milestones during the early stages of their relationship. Thus, some parties take the approach of imposing fairly general performance standards on the licensee—such as requiring the licensee to use "good faith," "commercially reasonable efforts," or "best efforts" to commercialize the licensed technology in the agreed-on territory. However, these general performance standards can be subject to wide variations in contractual interpretation. The potential ambiguity of whether a licensee is satisfying these general performance standards could lead to a lawsuit between the parties, in which case the parties are effectively leaving it up to a court to define these standards and decide whether the licensee has satisfied them. Thus, parties need to realize that the potential ambiguity caused by these general performance standards could lead to stalemates and larger conflict between the parties.

Whether the parties negotiate specific milestone provisions or fall back on the more general performance standards noted above, the parties should try to address the consequences for the licensee's failure to meet these provisions. Particularly with regard to exclusive licenses, licensors may negotiate for a provision that gives the licensor the right to terminate the license agreement if the licensee fails to meet these milestone provisions, although a licensee will often insist on having a cure period to remedy any such noncompliance. Another approach is for a licensor to have the right to convert an exclusive license into a nonexclusive license if the licensee fails to meet these milestone provisions.

§ 64.10-1 Does Licensee Have Any Minimal Duty to Exploit the Licensed Technology Based on Implied Covenant of Good Faith and Fair Dealing?

Some parties have asked whether a licensee is bound by any common-law implied covenants to make a good-faith effort to exploit the licensed technology even if the license agreement is silent regarding the level of effort required by the licensee in exploiting the licensed technology (i.e., the license agreement does not have either specific milestone provisions or the even the general performance standards noted in § 64.10). The basis of this inquiry is that under general contract principles, all parties to a contract have a basic obligation of acting in good faith in their performance of the contract.

In *Marsu, B.V. v. Walt Disney Co.*, 185 F3d 932, 935 (9th Cir 1999), the Ninth Circuit addressed the application of the implied covenant of good faith and fair dealing in a license agreement that granted Walt Disney Company, as licensee, exclusive worldwide rights to exploit a cartoon character owned by Marsu, the licensor. The Ninth Circuit found that Walt Disney Company breached the implied covenant of good faith and fair dealing because the company did not appear to make any true effort to exploit the cartoon character, potentially due to management decisions to focus on other projects. However, Disney was also found to have breached certain express provisions of the agreement, and, thus, the damages awarded to the licensor were ultimately based on breaches of both these express contract provisions as well as the implied covenant. *Marsu, B.V.*, 185 F3d at 936–38. Thus, it is not clear if the licensor would have been entitled to some, or all, of those damages if the licensee had breached only the implied covenant of good faith and fair dealing.

The *Marsu* case is illustrative of how one court has addressed this issue. However, other courts appear to use varying interpretations of the licensee's implied covenant of good faith and fair dealing, and, thus, there does not appear to be a clear consensus on whether, or to what degree, a licensee will be bound by any implied covenant of good faith and fair dealing in the absence of explicit milestone provisions in a license agreement. This ambiguity means that prudent parties (particularly a licensor) likely should not rely solely on this implied covenant if the parties intend the license agreement to require the licensee to meet certain levels of exploitation of the licensed technology. Instead, the parties should try to negotiate either specific milestone provisions or, at a minimum, the general performance standards noted in § 64.10.

§ 64.10-2 Licensor's Perspective

A prudent licensor will require a licensee to develop a business plan describing the licensee's intended commercialization of the licensed technology to allow the licensor to determine the most appropriate performance criteria and standards that will be imposed on the licensee under the milestones provision. With regard to exclusive licenses, licensors usually feel justified in seeking fairly strict milestone provisions because of the significance of that license grant. Licensors should develop minimum levels of performance even for nonexclusive licensees. Licensors usually prefer the more specific milestone provisions outlined in § 64.10. However, if the licensor lacks the negotiation leverage to demand these specific milestones, licensors usually seek a "best efforts" standard as the licensee's milestone obligation.

§ 64.10-3 Licensee's Perspective

Particularly with regard to early stage licensed technology, many licensees may resist the more specific milestone provisions mentioned in § 64.10 on the theory that it is premature to require them to formulate any meaningful monetary or market-share milestones. The licensee may argue that it still has to engage in substantial research and development and extensive marketing before it will have a full understanding of the commercial potential of the licensed technology. Licensees also often resist preparing a detailed business plan for fear that it may be construed as a contractual obligation to perform the specific steps described in that business plan. Accordingly, many licensees tend to prefer the more general performance standards of using "good faith" or "commercially reasonable efforts" to commercialize the licensed technology in the agreed-on territory.

§ 64.11 RESERVATION OF LICENSOR'S OWNERSHIP RIGHTS

§ 64.11-1 Reservation of Licensor's Ownership Rights

License agreements typically contain a provision, often placed right after the granting clause, that explicitly states that the license agreement does not grant, confer, or transfer any rights, title, or interest in any of the licensor's intellectual property rights or any other technology or proprietary information owned or controlled by the licensor except to the extent explicitly stated in the granting clause in the license agreement. The terms are often contained in, or called, the reservation-of-rights provision.

The reservation-of-rights provision usually contains an affirmative statement that the licensee is not being granted any (1) implied rights or any other rights under any theory or principles of estoppel, or (2) license or other rights in any of the licensor's other technology except for the delineated licensed technology (thus excluding, for example, any of the licensor's unrelated background technology or unrelated independently developed technology).

In addition, the reservation-of-rights provision often includes a clause that affirmatively states that the licensor reserves and retains all rights in all of its intellectual property rights subject only to the explicit licensed rights given to the licensee under the granting clause. This provision may also affirmatively state that any rights granted to the licensee will revert back to the licensor in case of any termination, expiration, or cancellation of the license agreement.

§ 64.11-2 Impact of *MedImmune* Case

§ 64.11-2(a) Overview of *MedImmune* Case

The United States Supreme Court's decision in *MedImmune, Inc. v. Genentech, Inc.*, 549 US 118, 127 S Ct 764, 166 L Ed 2d 604 (2007), significantly altered the patent licensing landscape and continues to impact negotiation strategies, drafting, and interpretation of patent license agreements to this day.

Before *MedImmune*, license agreements often contained a so-called no-challenge provision that typically barred a licensee from challenging the validity of the licensed patents and stated that the license agreement would immediately terminate if the licensee instituted any such challenge. A licensee was essentially forced to stop paying the royalties, thus breaching the contract, to establish standing to initiate any validity challenge against the licensor's patent.

The *MedImmune* case arose from a lawsuit filed by MedImmune that challenged one of the patents issued to Genentech. One of the central issues was whether the licensee retained the right to challenge a licensed patent, or whether this right was forfeited upon signing the license agreement. In *MedImmune*, the Supreme Court ruled that a licensee may challenge the validity, enforceability, or noninfringement of a licensor's patent without having to stop paying the royalties and, thus, breaching its license agreement. *MedImmune, Inc.*, 549 US at 137.

A significant consequence of the *MedImmune* case is that an outright no-challenge provision is not enforceable. This result has altered the licensor-licensee relationship because, in the post-*MedImmune* world, a licensee can now continue to pay royalties to the licensor "under protest" or with "reservation of rights" (thus not triggering a breach of contract), yet still challenge the validity of the licensor's patent without facing possible infringement damages.

In reaction to *MedImmune*, many licensing attorneys and commentators developed alternate licensing provisions that, while not outright no-challenge provisions, are designed to discourage a licensee from bringing invalidity actions. See § 64.11-2(b) for examples of several of these alternate provisions that licensors may propose.

Arguably the most significant alternate provision that licensing attorneys have developed since *MedImmune* is a clause (often included in the reservation-of-rights provision) that grants the licensor a contractual right to terminate the license agreement if the licensee challenges the validity of the licensed patents. Some commentators and licensing attorneys take the position that this so-called termination-right provision is valid and enforceable under *MedImmune* because (1) unlike the no-challenge provision, this termination right does not actually prevent the licensee from challenging the validity of the licensed patent, and (2) unlike most of the no-challenge provisions, this termination-right provision is not automatic and requires an election by the licensor to exercise the right.

While it is clear from *MedImmune* that no-challenge provisions are unenforceable, it remains unclear to what degree the above-mentioned termination-right provision or some of the other alternate provisions used by licensors will be upheld by courts in the future. Nevertheless, many licensing attorneys representing licensors still negotiate to include some of these alternate provisions based on the theory that these provisions are arguably still valid under *MedImmune* unless and until a future court affirmatively holds to the contrary.

§ 64.11-2(b) *MedImmune* Negotiation Strategies for Licensors

A licensor must avoid the outright no-challenge provision because it is simply not enforceable under *MedImmune, Inc. v. Genentech, Inc.*, 549 US 118, 127 S Ct 764, 166 L Ed 2d 604 (2007). *See* § 64.11-2(a). However, as noted in § 64.11-2(a), creative licensing attorneys representing licensors may consider some of the following alternate provisions to create economic disincentives that might discourage a licensee from challenging the licensor's patent. Licensors should, however, be aware that licensees may still oppose these alternate provisions as being in violation of the spirit of the *MedImmune* decision.

(1) *Termination Right:* As noted in § 64.11-2(a), this provision grants the licensor a right to terminate (exercisable at the licensor's sole election and, thus, not automatic) if the licensee challenges the validity, enforceability, or scope of the licensed patent in any claim, cross-claim, counterclaim, or defense before any court, arbitrator, or administrative agency in any jurisdiction (even outside the license territory). See § 64.11-2(a) for the licensor's rationale behind this provision and the possible limitations of using this clause.

(2) *Notification Prior to Challenge:* This provision requires the licensee to provide the licensor with written notice explaining the basis for challenging the validity, enforceability, or scope of the licensed patent. This might give the parties time to evaluate these assertions and possibly renegotiate the license agreement before the licensee actually files any challenge.

(3) *Forum Selection Provision:* Licensors may want greater control over the selection of the courts in which the licensee may file any challenge. Thus, a licensor may want a provision that states the specific court where the licensee must bring any challenge proceeding and also requires the licensee to consent to the personal jurisdiction of that court.

(4) *Seek More Royalty Payments Upfront:* Licensors may want to obtain more upfront royalty payments from the licensee and specify that these payments are nonrefundable.

(5) *Right to Raise Royalty Rate:* Licensors may want the right (exercisable at the licensor's sole election) to raise the royalty rate if the licensee loses a challenge.

(6) *Require Licensee to Pay Attorney Fees and Costs If Challenge Is Unsuccessful:* A licensor could try to include a provision by which the licensor can recover its attorney fees and other reasonable costs if the challenge is unsuccessful.

§ 64.11-2(c) *MedImmune* Negotiation Strategies for Licensees

The licensee should recognize that patent holders will likely seek some of the alternate provisions noted in § 64.11-2(b), and, thus, licensees should consider some of the following strategies and provisions to help preserve their negotiation leverage:

(1) *Scrutinize Wording of Any Termination Right:* Licensees should anticipate that licensors may seek this type of alternate provision even though its enforceability is unclear under the present state of the law. Thus, licensees should scrutinize the wording so that it does not give rise to the equivalent of a no-challenge provision.

(2) *Place Royalties in Escrow during Challenge:* A licensee could try to include a provision that requires the placement of some (or

possibly all) royalty payments into an escrow account during the pendency of a challenge, particularly a challenge concerning a fundamental patent right.

(3) *Require Licensor to Disclose Additional Prior Art:* Licensees could try to require a licensor to disclose to the licensee all additional prior art that is discovered during the term of the license agreement. Such information could assist the licensee in evaluating the ongoing strength of the licensor's patent rights.

(4) *Require Licensor to Pay Attorney Fees and Costs If Challenge Is Successful:* A licensee could try to include a provision that requires the licensor to pay the licensee's attorney fees and other reasonable costs upon completion of a successful patent challenge.

§ 64.12 ROYALTIES AND OTHER FORMS OF COMPENSATION

§ 64.12-1 Typical Forms of Royalties and Other Compensation

One of the most significant provisions in a license agreement is establishing the appropriate consideration the licensor will receive in exchange for granting the license rights to the licensee. There are numerous ways to structure this compensation. Indeed, the forms of compensation can vary widely depending on the particular factors of the business relationship and expectations of the parties, including (1) the extent of the licensee's ability to pay funds up front versus over a period of time, (2) the perceived value of the applicable licensed technology, (3) the types of compensation prevalent in a particular industry, (4) the licensor's willingness to take an equity interest in the licensee in exchange for a reduction in traditional royalty compensation, and (5) the parties' overall appetite for structuring royalties in nontraditional ways.

The following are the most common ways of structuring compensation in a license agreement:

(1) a paid-up or lump-sum payment at the execution of the license agreement;

(2) an ongoing royalty calculated as a percentage of the income from the gross sales or net sales derived from exploiting the licensed technology;

(3) a royalty that charges a fixed amount for each unit of product sold or service performed;

(4) a fixed royalty amount paid periodically at specified time periods or upon the occurrence of certain events during the term of the license agreement (and not necessarily based on sales); and

(5) issuance of an equity interest (i.e., corporate stock or limited liability company units), options, or warrants by the licensee to the licensor.

One or more of the above forms of compensation could possibly be included in the same license agreement, depending on the business arrangement that the parties negotiate.

§ 64.12-2 Ongoing Royalties Are Common Form of Compensation in License Agreement

One of the most commonly used forms of compensation in license agreements is the ongoing royalty that is calculated as a percentage of income derived from the sale of the applicable products or services. The parties must decide if the percentage will be based on the gross sales or the net sales—and this determination will be based on the intended business relationship between the parties. That said, basing ongoing royalties on net sales is a very common approach.

It is in both parties' interests to precisely define the meaning of the terms "gross sales" and "net sales." Generally, gross sales include the total income or revenue received (or possibly just invoiced) by the licensee (and possibly by its affiliates and sublicensees) from the sale or other distribution of the products or services that constitute the licensed technology.

The definition of "net sales" is often one of the most heavily negotiated financial terms in a license agreement, because it directly impacts the level of royalties to be paid. While there is no universally fixed definition of "net sales," there are some items that parties typically consider as appropriate deductions from the gross sales, such as (1) returns and allowances actually granted by the licensee, (2) industry-standard trade and quantity discounts, and (3) the licensee's actual cost of packing and shipping the product (such as the cost of freight and insurance). The parties often heavily negotiate whether, and to what extent, commissions, taxes, and excise duties paid by the licensee should be deducted from the gross sales to achieve the "net sales" definition.

§ 64.12-3 Minimum Royalties

The term "minimum royalties" is often used in association with ongoing royalties. Certain licensors expect their licensees, particularly those with exclusive license rights, to pay a minimum amount of periodic royalties regardless if this amount has, in fact, been achieved based on the licensee's actual sales during the applicable period. The genesis of this provision is that the licensor ultimately does not control the licensee's commercialization of the licensed technology and, thus, the licensor should not have to risk all of its right to receive royalties if the licensee's sales underperform. Because minimum royalties are typically the floor amount that a licensee must pay for its ongoing royalties, minimum royalties are typically not an extra payment required of the licensee if the licensee's actual sales result in an ongoing royalty payment that is higher than the applicable minimum royalty amount.

§ 64.12-4 Payment Terms

The license agreement must clearly describe when the royalty payments or other compensation are due and payable to the licensor. Ongoing royalties, for example, are commonly due on a quarterly basis. Particularly with ongoing royalties, licensees are commonly required to submit reports along with their payments that explain the calculation of the royalty payments being paid at that time.

§ 64.12-5 Record Keeping and Audit Rights

Most license agreements require a licensee to maintain accurate records of its sales of the applicable products or services, particularly if ongoing royalties have to be paid. Licensors are commonly given rights to audit these records to verify the accuracy of royalty payments. While the concept of giving a licensor these audit rights is common in license agreements, the key terms the parties normally negotiate are:

(1) What notice does the licensor have to give to the licensee before conducting the audit?

(2) How frequently during a one-year period can the licensor conduct an audit (that usually must occur during normal business hours)?

(3) Which representatives of the licensor (i.e., its certified public accountant or any other agent) can conduct the licensor's audit?

(4) What fees will be imposed on the licensee if the audit uncovers a significant underpayment of royalties by the licensee? The licensee often has to pay the full cost of the audit if the discrepancy is more than a certain percentage (usually between a 5 percent to 10 percent discrepancy).

§ 64.12-6 Determining Reasonable Royalty Rates

§ 64.12-6(a) Overview

Parties to license agreements often ask what would be a common royalty rate for their particular licensed technology. The difficulty in answering this question is that there are no true standard royalty rates. The reason is that royalty rates can vary widely depending on a multitude of factors related to the licensed technology, the strength of the underlying intellectual property rights, and the industry sector of the licensor and licensee.

That said, there are a number of third-party sources available to licensors and licensees that could help them get a general sense of royalty ranges. These third-party sources may describe royalty rates used in transactions involving potentially comparable technologies or potentially comparable industries. These third-party sources include (1) *LES Royalty Rates and Deal Terms Surveys*, Licensing Executives Society, <www.lesusacanada.org/page/royaltyrates>; (2) Gregory J. Battersby & Charles W. Grimes, *Licensing Royalty Rates* (Wolters Kluwer 2018); (3) Royalty Source, <www.royaltysource.com>; and (4) *Intellectual Property Data & Analytics Platform*, ktMINE, <www.ktmine.com>.

If a party, particularly a licensor, is still unsure about what royalty rate to use, it could engage an intellectual property valuation professional to help analyze the value of its intellectual property rights and associated licensed technology to arrive at some logical royalty rate for its particular license agreement.

§ 64.12-6(b) Georgia-Pacific Case Provides Useful Guidance Regarding Factors to Consider for Royalties

In *Georgia-Pac. Corp. v. U.S. Plywood Corp.*, 318 F Supp 1116, 1120 (SDNY 1970), *modified sub nom Georgia-Pac. Corp. v. U.S. Plywood-Champion Papers, Inc.*, 446 F2d 295 (2d Cir 1971), *cert den*, 404 US 870 (1971), the district court developed 15 factors to be considered when calculating damages for a patent infringement. The district court reasoned that its 15 factors could be applied to "hypothetical negotiations" between a "willing licensor" (the patent owner) and a "willing licensee" (the infringer) at the time the infringement began to try to calculate reasonable royalty damages. *Georgia-Pac. Corp.*, 318 F Supp at 1121.

While the *Georgia-Pacific* case addresses patent infringement damages, the methodology and framework of its 15 factors have often been identified as a useful tool for licensors and licensees to give them general guidance regarding factors to consider when determining a reasonable royalty rate for their license agreement.

The following are all 15 *Georgia-Pacific* factors (although not all of these factors may apply to a particular license agreement):

> 1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.
>
> 2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.
>
> 3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.
>
> 4. The licensor's established policy and marketing program to maintain [its] patent monopoly by not licensing others to

use the invention or by granting licenses under special conditions designed to preserve that monopoly.

5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.

6. The effect of selling the patented specialty in promoting sales of other products of the licensee; that existing value of the invention to the licensor as a generator of sales of [its] non-patented items; and the extent of such derivative or convoyed sales.

7. The duration of the patent and the term of the license.

8. The established profitability of the product made under the patent; its commercial success; and its current popularity.

9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

14. The opinion testimony of qualified experts.

15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention—would have been willing to pay as a royalty and yet be able

> to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

Georgia-Pac. Corp., 318 F Supp at 1120.

§ 64.12-7 Cannot Charge a Royalty after a Patent Expires

§ 64.12-7(a) Genesis of United States Supreme Court's *Brulotte* Rule

The U.S. patent system grants patent holders exclusive rights in their invention for 20 years from the application date. 35 USC § 154(a). During this period of exclusivity, the patent holder clearly has a right to grant licenses and demand royalties in return.

The United States Supreme Court in *Brulotte v. Thys Co.*, 379 US 29, 32–34, 85 S Ct 176, 13 L Ed 2d 99 (1964) made it clear that a royalty agreement calling for payment of patent royalties after the expiration of the patent is misuse of the patent right, is "unlawful per se," and is therefore unenforceable. The following is the rationale of the Court in this often-called *Brulotte* rule:

> [W]e conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se. . . . A patent empowers the owner to exact royalties as high as [it] can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones. The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain. We share the views of the Court of Appeals in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F2d 496, 510 (3d Cir 1962), that after expiration of the last of the patents incorporated in the machines 'the grant of patent monopoly was spent' and that an attempt to project it into another term by continuation of the licensing agreement is unenforceable.

Brulotte, 379 US at 32–34 (citation omitted).

Following *Brulotte,* courts struggled with how to address post-patent expiration royalties in hybrid licenses, such as a license that grants rights in not only patent rights but also in non-patent rights, such as copyrights and trade secrets. The Eleventh Circuit addressed this issue in *Pitney Bowes, Inc. v. Mestre*, 701 F2d 1365, 1373 (11th Cir), *cert den*, 464 US 893 (1983), in which the court held that a hybrid license agreement would still constitute misuse under the *Brulotte* rule if the agreement required the licensee to continue to pay royalties at the same rate and on the same basis both before and after the expiration of the patents. The lesson from *Pitney-Bowes* is that hybrid license agreements must demonstrate a reduction (often called a step-down) in the royalty rate after the patent's expiration to comply with the *Brulotte* rule.

§ 64.12-7(b) *Kimble v. Marvel* Reaffirms *Brulotte* Rule

Over the years, the *Brulotte* rule came under criticism by certain scholars and in certain courts based on their argument that the rule was outdated for our modern technology age and that it prevented efficient and procompetitive licensing transactions and therefore may negatively impact innovation. This criticism received notoriety in *Kimble v. Marvel Enterprises Inc.*, 727 F3rd 856 (9th Cir 2013), *aff'd sub nom Kimble v. Marvel Entm't, LLC*, 135 S Ct 2401, 192 L Ed 2d 463 (2015), in a case involving Marvel's resistance to paying more royalties after the expiration of patents held by Kimble. While the Ninth Circuit reluctantly applied the *Brulotte* rule by holding for Marvel, the court criticized the *Brulotte* rule as "counterintuitive and its rationale . . . arguably unconvincing." *Kimble*, 727 F3rd at 857.

On appeal, the United States Supreme Court reexamined the issues related to the payment of royalties after patent expiration and reaffirmed its ruling in *Brulotte*. The Supreme Court held there was no justification to overrule *Brulotte*, and, thus, *stare decisis* required the Court to adhere to *Brulotte*. *Kimble*, 135 S Ct at 2405. The Court explained that the U.S. patent system reflects a "balance between fostering innovation and ensuring public access to discoveries." *Kimble*, 135 S Ct at 2406–07. Consequently, once the statutory term of the patent monopoly ends, "the right to make or use the article, free from all restriction, passes to the public." *Kimble*, 135 S Ct at 2407.

§ 64.12-7(c) Guidance on Structuring Patent Royalties after *Kimble*

While the United States Supreme Court in *Kimble* maintained the precedent established by *Brulotte* that licenses cannot require patent royalties that extend after the patent expiration, the Court interestingly acknowledged that "parties can often find ways around *Brulotte*, enabling them to achieve those same ends." *Kimble v. Marvel Entm't, LLC*, 135 S Ct 2401, 2408, 192 L Ed 2d 463 (2015).

The Court's decision cited a few key examples of these work-arounds. *See Kimble*, 135 S Ct at 2408. These examples are described in the following chart along with the author's commentary to provide guidance for licensing attorneys:

Example Provision from *Kimble* Court	Author's Commentary
"And parties have still more options when a licensing agreement covers either multiple patents or additional non-patent rights. Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires."	This example addresses license agreements with licensed technology covered by multiple patents and with royalties payable until the expiration of the last patent. This type of royalty rate is often referred to as a blended rate, because it covers the multiple patents being licensed. Per the *Kimble* Court, this type of provision is acceptable under the *Brulotte* rule.
"[P]ost-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent. . . . That means, for example, that a license involving both a patent and a trade secret can set a 5% royalty during the patent period (as	This example addresses hybrid license agreements that grant licenses in both patent rights and non-patent rights (such as copyrights and trade secrets). To remain in compliance with the *Brulotte* rule, if royalties continue after expiration of the last patent being licensed, the

Example Provision from *Kimble* Court	Author's Commentary
compensation for the two combined) and a 4% royalty afterward (as payment for the trade secret alone)."	royalty rate must be reduced to reflect the expiration of the last patent. This is often called a step-down in the royalty payment.
"A licensee could agree, for example, to pay the licensor a sum equal to 10% of sales during the 20-year patent term, but to amortize that amount over 40 years. That arrangement would at least bring down early outlays, even if it would not do everything the parties might want to allocate risk over a long timeframe."	This example addresses a provision in which royalties are computed over the patent term but the contract clearly states that the payment will be amortized over a longer period of time that extends past the patent expiration. This example is basically making a critical distinction between the following provisions: (1) a provision by which royalty payments are computed based on post-expiration sales or usage (which is unlawful); and (2) a provision that extends the payment timeline after patent expiration but only for royalties calculated solely on sales or usage that occurred before patent expiration (which is permissible).
"Finally and most broadly, *Brulotte* poses no bar to business arrangements other than royalties—all kinds of joint ventures, for example—that enable parties to share the risks and rewards of commercializing an invention."	This example does not give much detail about what types of "business arrangements other than royalties" are intended. However, this may include certain joint technology development agreements or joint ventures that allow compensation between the parties after the life of

Example Provision from *Kimble* Court	Author's Commentary
	the patent.

§ 64.13 INTELLECTUAL PROPERTY REPRESENTATIONS AND WARRANTIES

§ 64.13-1 Licensor Must Take Steps to Secure Intellectual Property Rights before Making Any Intellectual Property Representations and Warranties

One of the most critical due diligence steps for a licensor who claims to own all of the intellectual property rights being licensed is to make sure it has taken all steps to actually secure that ownership. The licensor needs to take these steps before the licensor can make its intellectual property representations and warranties in the license agreement.

§ 64.13-1(a) Licensor Securing Ownership in Patent Rights before Licensing to Licensee

With regard to patent rights, each inventor retains ownership over his or her rights in an invention unless and until that inventor has assigned some or all of those rights to a third party, including an employer. The assignment must be in a signed writing that adequately identifies the assigned invention. *See* 35 USC § 261.

Employers who do not obtain this signed assignment from an employee will not obtain any ownership right in that employee's inventions. Instead, the employer will enjoy only a mere "shop right" by operation of law. A "shop right," in the most general sense, is a royalty-free, nonexclusive, and irrevocable license deemed to be granted by operation of law to the employer to practice the invention if the employee made more than a *de minimis* use of the employer's resources to conceive or make that invention. The shop-right license can be transferred only ancillary to the sale of the employer's entire business that originally acquired the shop right. The shop right normally lasts until the applicable patent right expires.

The issues related to the proper steps an employer should take to secure patent rights from its employee were highlighted by the United States Supreme Court's decision in *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 US 776, 131 S Ct 2188, 180 L Ed 2d 1 (2011), which affirmed the Federal Circuit's decision in *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F3d 832 (Fed Cir 2009).

The dispute in *Stanford* related to certain patents covering diagnostic tests for the HIV infection. Stanford University claimed it owned the applicable inventions based on its employment agreement with a faculty member that was an inventor. Roche, on the other hand, claimed certain ownership rights in the inventions based on an assignment document that was signed at a later date by the same faculty member and that assigned certain rights to Cetus. (Roche became Cetus' successor.) *See Bd. of Trustees of Leland Stanford Junior Univ.*, 583 F3d at 837–38.

A critical issue in the resolving this dispute was the particular wording of the competing patent assignments signed by the faculty member. The initial Stanford assignment stated that the faculty member "agree[d] to assign" to Stanford his "right, title and interest in" inventions resulting from his employment at the university. *Bd. of Trustees of Leland Stanford Junior Univ.*, 583 F3d at 841. On the other hand, the subsequent assignment to Cetus stated that the faculty member "will assign *and do[es] hereby assign*" to Cetus his "right, title and interest in each of the ideas, inventions and improvements." *Bd. of Trustees of Leland Stanford Junior Univ.*, 583 F3d at 842 (emphasis in original).

The Federal Circuit concluded that the "agree to assign" language in the initial Stanford agreement was merely a promise to assign rights in the future and, thus, was *not* a present assignment. *Bd. of Trustees of Leland Stanford Junior Univ.*, 583 F3d at 841. On the other hand, the "hereby assign" language in the subsequent assignment to Cetus was properly worded to constitute a present assignment and thus operated to assign the faculty member's inventor rights to Cetus. *Bd. of Trustees of Leland Stanford Junior Univ.*, 583 F3d at 842. Thus, the ineffective assignment wording of the Stanford document meant the faculty member had not yet, in fact, assigned his inventor rights to Stanford before the time he properly assigned those inventor rights to Cetus in the subsequently signed, but properly worded, Cetus assignment document.

A key lesson for licensing attorneys from these facts in *Stanford* is that every licensor claiming ownership in patent rights should first properly secure those patent rights from the inventors (including all employees), using proper present assignment language, before the licensor agrees to any of the intellectual property representations and warranties in the license agreement.

§ 64.13-1(b) Licensor Securing Ownership Rights in Copyrights and Other Intellectual Property Rights before Licensing to Licensee

Under U.S. copyright law, a "work made for hire" in the employer-employee context is defined as a "work prepared by an employee within the scope of his or her employment." 17 USC § 101. Thus, if a licensor that is an employer can demonstrate that the author of a copyright-protected work is its employee, and that work was created within the scope of that employment, the licensor-employer could assert that it is automatically the author and owner of the work by operation of law and without the need to obtain a signed assignment from the employee. However, most prudent licensors will still require this employee to assign the copyright to the licensor under a signed written agreement to have clear and tangible evidence of the licensor's ownership.

If a licensor engages an independent contractor to create a copyright-protected work, U.S. copyright law will consider the work to be a "work made for hire" owned by the licensor if the following conditions are met: (1) there is a written instrument signed by the independent contractor that expressly states the work is a "work made for hire"; and (2) the commissioned work falls within one of the types of works enumerated in the statute. 17 USC § 101. A key limitation of this "work made for hire" rule with contractors is that the list of works enumerated in 17 USC § 101 is fairly narrow and may not include many types of technology, such as software. Thus, a prudent licensor will make sure that the signed agreement not only references the "work made for hire" language but also contains a separate and clear present copyright assignment to the licensor.

Licensors that desire to obtain ownership rights in trademarks or trade secrets developed by their employees or independent contractors cannot rely on the "work made for hire" provisions described above because those provisions apply only to copyright-protected works. Thus, a prudent licensor in this position should obtain a signed agreement from any such employee or independent contractor that contains a present assignment to the licensor of all of the ownership rights in the applicable trademarks and trade secrets.

§ 64.13-2 Typical Intellectual Property Representations and Warranties

The following are the most typically negotiated representations and warranties related to the intellectual property rights being licensed by the licensor to the licensee:

(1) that the licensor is the sole owner of the intellectual property rights and the associated licensed technology;

(2) that the licensee's exercise of its license in the intellectual property rights to exploit the licensed technology in accordance with the license agreement will not infringe on any third party's intellectual property rights; and

(3) that the intellectual property rights, particularly patent rights, are not invalid.

§ 64.13-3 Licensee's Perspective

A licensee expects to receive assurances from the licensor that it either owns or controls the intellectual property rights being licensed under the license agreement, because the licensor has bargained for the royalties and other compensation in exchange for that license grant. Thus, intellectual property representations and warranties are typically critical provisions for a licensee. Licensees, not surprisingly, try to obtain representations and warranties that are worded as broadly as possible to confirm that the licensor owns all of the intellectual property rights being licensed and that guarantee the licensee will not be sued for infringement of a third party's intellectual property rights if the licensee uses the licensed technology. *See* § 64.13-2 (provisions (1) and (2)). In view of the above-mentioned *Stanford* case (*see* § 64.13-1(a)), many licensees may want to be extra diligent in their follow-up inquiries in an effort to compel the licensor to demonstrate that it has indeed obtained ownership in all intellectual property rights being licensed and that those intellectual property rights have a clear chain of title down to the current licensor.

§ 64.13-4 Licensor's Perspective

Licensors are typically reluctant to give extremely broad intellectual property representations and warranties and the supporting indemnifications, and they will make every effort to minimize the scope of these provisions. For example, with regard to the ownership representations and warranties (*see* § 64.13-2 (provision (1))), a licensor will typically try to restrict this provision to the applicable territory that is covered by the license agreement. With regard to the intellectual property infringement representations and warranties (*see* § 64.13-2 (provision (2))), a licensor may typically try to condition this provision on the licensee's use of the intellectual property rights and licensed technology within the parameters of the specifications provided under the license agreement and will also try to limit it to the applicable territory. Also, most licensors will strongly resist the invalidity representation and warranty (*see* § 64.13-2 (provision (3))) because of the complexity and cost of obtaining a patent validity opinion from the licensor's outside counsel.

§ 64.14 TERM OF LICENSE

§ 64.14-1 Term Provision Establishing Duration or Term of License

License agreements normally contain a provision, often called the term, that sets forth the duration of the license and of the entire license agreement. As a general rule, the duration is governed by the time period stated in that provision, subject, however, to any earlier cancellation, expiration, or termination of the license agreement due to breach of contract or due to other principles of law, such as the termination of a copyright transfer or license under U.S. copyright law. *See* 17 USC § 203.

For patent licenses, parties often state that the term of the license will extend until the last of the patent rights to expire. However, see § 64.12-7(a) to § 64.12-7(c) for a discussion of the principle that a patent holder cannot charge a royalty after patent expiration and for the need of a step-down in royalties if the license agreement contains hybrid licenses granting rights in multiple intellectual property rights.

§ 64.14-2 Renewal of License

If a license contains a contractually designated term or duration, the license agreement may contain a clause addressing whether the parties may renew the term of the license agreement. A licensee typically would like this contract renewal to impose minimal conditions on its ability to exercise the renewal option. On the other hand, a licensor often wants to impose certain criteria or conditions on the licensee before the licensee may exercise its renewal option. One typical requirement is that the licensee must have paid all royalties and must have satisfied all of the performance criteria or milestones imposed on the licensee. See § 64.10 to § 64.10-3 for discussion of the licensee's milestones or performance criteria.

§ 64.14-3 Selling Off Inventory

Some licensees may want a provision that permits them to sell off inventory even after the effective date of the termination of the license. From the licensee's perspective, if it has expended considerable capital in manufacturing the licensed technology, it wants the right to recoup some of those costs for inventory on hand at the time of termination. On the other hand, a licensor typically will resist this provision if the license agreement was terminated due to a breach of contract by the licensee. If a licensor agrees to this type of provision, it (1) usually requires the licensee to pay royalties and all other applicable fees during this sell-off period, and (2) may limit the sell off to inventory that was already manufactured as of the termination date, to prevent any further manufacturing by the licensee during this sell-off period. The parties often negotiate the time period for this sell-off right—with licensors preferring shorter time periods (such as 45 to 90 days) and licensees seeking much longer periods to sell off their inventory.

§ 64.15 CONFIDENTIALITY PROVISION

Many license agreements have a nondisclosure or confidentiality provision. This provision is usually needed to protect the confidential aspects of many types of licensed technology as well as proprietary information regarding a party's financial matters or business operations. If a license agreement involving intellectual property rights lacks a confidentiality provision, it is not an overstatement to consider that a red flag that should cause a prudent licensing attorney to immediately ask why that provision is missing.

The key provisions to be negotiated in any confidentiality provision are the following: (1) what information from a disclosing party will be included in the meaning of and governed as confidential information, (2) the limited purposes that the receiving party can use the disclosing party's confidential information and all restrictions imposed on those permitted uses, (3) which personnel from the receiving party can use that confidential information, and (4) the time period imposed on the duty of confidentiality.

§ 64.15-1 Licensor's Perspective

Licensors typically want very narrow permitted uses of their confidential information by licensees to protect the licensor's nonpublic intellectual property rights, including nonpublished patent applications, nonpublished sources code, general technical information and methodologies, and other trade secrets. Licensors may also have concerns that licensees may get exposure to the licensor's business operations and acumen during the contractual relationship and that the nature of this information could educate the licensee so that it could one day become a competitor to the licensor.

Thus, licensors generally prefer (1) narrowly defined permitted uses of their confidential information, usually solely tied to a licensee's exercise of its license rights; (2) limiting the permitted uses of their confidential information to only those employees or agents of the licensee who have a critical need to know that information; and (3) a long period for the duty of confidentiality.

§ 64.15-2 Licensee's Perspective

If a licensee has its own valuable trade secrets that it needs to protect from use by the licensor, then a licensee may also have an interest in fairly strong confidentiality protection. In this case, the licensee may not resist some of the above-mentioned restrictions that a licensor may want to impose on the use of confidential information. *See* § 64.15-1. However, the licensee will likely demand that these restrictions be reciprocal to protect use of the licensee's confidential information by the licensor.

On the other hand, if a licensee will receive valuable technical information or other significant trade secrets from the licensor to allow the licensee to fully exploit the licensed technology, the licensee may resist too many restrictions on its use of the licensor's confidential information. A licensee may be concerned that too many restrictions could present an impediment to the licensee's plans and overall effort to commercialize the licensed technology. In this instance, a licensee may prefer (1) broader rights to use the confidential information, including the ability to possibly share the licensor's confidential information with a broader group of the licensee's employees or agents and with the licensee's affiliates and sublicensees to enhance the licensee's ability to commercialize the licensed technology; and (2) a shorter period for the duty of confidentiality so that the licensee can identify the specific sunset date of this obligation.

§ 64.16 IMPROVEMENTS TO THE LICENSED TECHNOLOGY

During the term of the license agreement, the licensor may continue its research and development regarding the licensed technology by creating "derivative works" (from a copyright perspective), "improvements" (from a patent perspective), or other types of upgrades, updates, revisions, or enhancements (collectively referred to as improvements). Licensees, assuming they have no contractual restrictions, may also develop improvements to the licensed technology during the term of the license agreement. In these situations, the parties should address (1) who will own these improvements, and (2) to what degree one party will have a right to use the other party's improvements.

§ 64.16-1 Licensor's Perspective

With regard to improvements to the licensed technology developed by the licensor, a licensor will want a provision in the license agreement stating that it solely owns these improvements. The licensor may also take an initial position that these improvements are outside the scope of the intended licensed technology and, thus, the licensee will need to negotiate a separate license agreement to obtain any rights to use the licensor's improvements. The licensor's concern is that allowing a licensee to have any automatic right to use the licensor's improvements could cause an endless funnel of technology being made available to the licensee on the same economic terms contained in the initial license agreement—and those terms could, over time, become outdated or much less favorable to the licensor. Thus, a licensor wants to avoid this "licensing creep." Instead, it wants a fresh opportunity to negotiate new economic terms for each of the licensor's improvements.

With regard to improvements to the licensed technology made by the licensee, a licensor typically wants access rights to these improvements even if they are owned by the licensee. In this instance, the licensor might seek a grant-back license from the licensee, possibly royalty-free, which will allow the licensor to use the licensee's improvements. The licensor's justification for this grant-back license is that but for the license agreement, the licensee would normally lack the know-how associated with the licensed technology needed to develop the applicable improvement. Licensees often resist this grant-back license, particularly those that are royalty-free. *See* § 64.16-2. Also, these grant-back provisions must be carefully drafted to avoid violation of certain antitrust laws.

§ 64.16-2 Licensee's Perspective

With regard to improvements to the licensed technology developed by the licensor, a licensee might take the position that these improvements should automatically be incorporated into the current licensed technology and, thus, automatically licensed to the licensee using the same economic terms in the current license agreement. If the licensor resists this approach (for the reasons noted in § 64.16-1), a licensee might then push (often aggressively) to be granted an exclusive right of first negotiation (sometimes called a right of first refusal), which gives the licensee the right to be the first party to negotiate with the licensor to get an exclusive license in the licensor's improvements. The licensee's rationale is that it needs rights in these improvements to enhance the licensee's ability to maximize the commercialization of the core licensed technology.

With regard to improvements to the licensed technology made by the licensee, a licensee will invariably want full ownership over them because of the funds, research and development efforts, and other resources expended by the licensee to develop these improvements. A licensee will normally resist efforts by the licensor to obtain any grant-back rights to use the licensee's improvements, even ones that limit the licensor's use to internal research. *See* § 64.16-1. A typical concern of a licensee in this instance is that it wants to keep its improvements away from its competitors, and giving the licensor this type of grant-back right may make it more difficult for the licensee to realistically control the use of its improvement by those competitors.

§ 64.17 DATA RIGHTS

§ 64.17-1 Data Is an Increasingly Vital Asset for Technology Development

In today's data-driven economy, many high-technology and bioscience companies are rapidly recognizing the vital role that data plays in their core research and development, marketing, and overall business strategies. More than ever before, data and data sets (collectively referred to as "data" unless otherwise indicated) are now viewed as having tremendous commercial value for many technology-driven companies.

For example, data analytics is a critical aspect of the business model for Amazon and other e-commerce companies, because the analysis of consumer data provides these companies with valuable business information such as consumer preferences, product trends, and other overall consumer trends.

A global pharmaceutical company like GlaxoSmithKline sees great value in obtaining rights to use bio-information given by individuals to ancestry services such as 23andMe to advance GlaxoSmithKline's genomic research and overall drug development efforts.

Thus, due to the heightened importance of data, many technology-based companies will increasingly try to obtain broader rights to use and control data to augment their competitive advantage in their industry sector and to advance their overall business objectives.

From the academic viewpoint, research performed by scientists at universities and other research institutions inherently relies on collecting and analyzing core scientific data. Today's scientific research is undergoing a revolutionary transformation due to the enhanced ability of researchers to conduct scientifically significant analytics of large data sets, which scientists hope will lead to advancements in their drug development and other medical discoveries.

§ 64.17-2 How Data May Be Protected by Intellectual Property Rights

A party's data might qualify for protection under one or more categories of intellectual property rights, depending on the type of data or what a party has done to that data. The following describes the most likely of these intellectual property rights:

(1) Certain data may be protectable as a trade secret if the data is not generally available to the public, the data has commercial value to the company claiming ownership of the data, and that company has taken reasonable measures to keep the information a secret. For example, valuable conclusions or other know-how that a party may derive from its

analytics-driven assessment of patterns or trends in large data sets may be a trade secret for that party.

(2) Certain data may be protectable under copyright law. For example, some databases may be subject to certain copyright protection due to a party's creative selection criteria or organizational scheme for aggregated data. Some of the conclusions or know-how derived from analytics may have a sufficient level of creatively to warrant copyright protection.

§ 64.17-3 Negotiating Data Rights Provisions in License Agreements

Parties to license agreements may have, in the past, addressed certain data issues in their license agreements. However, more than ever before, parties are increasingly focusing on the importance of data rights provisions in contemporary license agreements because of the enhanced value of data in many industry sectors and due to the seemingly endless need that parties have for data to advance their business agendas or research goals.

Depending on the perceived value of the applicable data, it is possible that either a licensor or licensee, or possibly both parties, may aggressively negotiate the provisions that will govern data, including which party will own or control the data and what rights the parties will have to use or share the data.

Parties should anticipate that the more vital the data might be to a party, including the competitive advantage that data may give a party in its particular field or industry sector, the more aggressively that party may attempt to impose its control over the data.

The following illustrates some of the escalating levels of control a party might try to impose over the use or sharing of data:

(1) A party may want to receive a very broad right to use all data developed by either party or that otherwise arises out of the license agreement, regardless of which party might claim ownership in the applicable data.

(2) A party may want to own all intellectual property rights in all data developed by either party or that otherwise arises out of the license agreement, but may be willing to grant to the other party a broad license to use that data;

(3) Similar to item (2) above, a party may want to own all intellectual property rights in all data developed by either party or that otherwise arises out of the license agreement, but that party may be willing to grant to the other party only a limited license to use that data subject to certain enumerated restrictions on the right to access, share, and use that data.

(4) A party may want to own all intellectual property rights in all data developed by either party or that otherwise arises out of the license agreement and may want total control over the access and use of the data to enhance its competitive position in its market. This party may be willing to grant to the other party only very limited access and usage rights—such as a narrow right to use the data solely for internal research and development but with strict confidentiality requirements to prevent that data from getting into the hands of the party's competition.