

A Technologist's Guide to Outbound Technology Licensing Agreements

Selling your wares in the technology sector often involves some form of technology licensing. Generating revenue is not as simple as selling tangible goods. The level of complexity is heightened by the need to establish routes to market involving multi-tier distribution arrangements—and the 'middle-men' are often sophisticated, well funded organizations with legions of lawyers.

As scientists, technology developers and engineers comprise some of the smartest brains on the planet, they should not be daunted by the prospect of negotiating a licensing deal. However, technologists sometimes freeze with fear when presented with a licensing agreement written in legalese. This paper is intended to help technologists understand the issues and provisions of technology licensing agreements and arm them with the arguments they need to negotiate win:win arrangements with their licensing partners.

General principles

Before we dive into the details of the licensing agreement, let's review some basic principles on forming contracts and drafting provisions.

What is a contract?

A contract is simply a promise that is enforceable in court. The courts generally look for some form of offer, some form of acceptance of the offer and an exchange of value (consideration) as the elements of a contract.

What does "Enforcement" mean?

If you fail to deliver on the promise you made in the contract, you can be forced to pay compensation to reimburse the other party for the costs they have incurred as a result. The good news is that the cost of breaching a contract doesn't usually involve punitive damages. The bad news is that the courts have a number of ways of enforcing the contract—or making your pay up if you fail to fulfill your part of the bargain:

- Compensatory damages—money to reimburse the losses incurred by the other party as a direct result of the breach. The principle is to pay sufficient damages to restore the non-breaching party to the position it would be in if the contract had been fully performed, or alternatively, to restore them to the position they were in before the contract was entered.
- Consequential and incidental damages—money for losses caused by the breach that were foreseeable. Foreseeable damages means that each side could reasonably expect, at the time the contract was formed, that certain losses would likely result from a breach. Consequential damages can reach millions, or even billions, of dollars if lost profits or revenues are factored into the calculation.
- Liquidated damages—damages specified in the contract that would be payable under certain specified conditions. Liquidated damages are common in construction projects where a sub-contractor is forced to pay the contractor a pre-agreed fee for each day he is late in completing his task.
- Specific performance—a court order requiring performance exactly as specified in the contract. This remedy is rare as the courts do not want to get involved with monitoring contracts to make sure each party has performed as agreed—the court finds it simpler to force the breaching party to pay cash damages and generally prefers this as a remedy. However, specific performance is used in real estate transactions where a seller could be forced to transfer the property to the specified buyer, and other situations involving unique items of property.
- Punitive damages—this is money given to punish a person who acted in an offensive and egregious manner in an effort to deter the person and others from repeated occurrences of the wrongdoing. Common in personal injury suits, punitive damages are not allowed in pure contract enforcement cases.
- Rescission—the contract is canceled, both sides are excused from further performance and any money advanced is returned.
- Reformation—the terms of the contract are changed to reflect what the parties actually intended.

So the court has a number of options available to enforce a contract and it's good public policy to encourage contracting parties to respect the promises they make to each other. After all, it would be difficult to transact business, and the whole economy would suffer, if contracts could be breached and promises unfulfilled without the possibility of an effective remedy in court.

With such a range of remedies available to the courts, it's clearly important to be know when you're entering into a contract, so let's turn

Get it in writing—or email

You don't need a legal-looking document signed by two parties to form a contract. You can form a contract verbally by simply exchanging promises or offering to pay someone when they complete a task for you. However, agreements involving more than \$5,000 and agreements that take more than 12 months to perform generally have to be in writing in order to be enforceable by the court.

Does an exchange of promises in the form of an email dialog form a writing and a binding contract? You bet. If you're exchanging emails on a regular basis that involve offers, the acceptance of offers and exchanges of promises, you're probably unwittingly forming contracts that could be enforceable at law. But what about the signature—there is no signature on an email, right? Wrong. An email can form a valid signature. In fact, all forms of electronic signatures as defined in the E-Sign (Electronic Signatures in Global and National Commerce) Act carry equal authority to hand-written signatures. Binding contracts can be formed through email and the exchange of other forms of digital documents—so, conversing with your licensee through email could provide you with a trail of documents that creates a contract and means promises made to you by your licensee are enforceable in court.

What type of terms can you put into a contract?

Contracts are not exclusively reserved for buy-sell agreements and can be formed around virtually any type of subject matter. Any terms you are able to write in the English language, or another language for that matter, can be contracted and enforced by the courts. Well, there are some restrictions—for example, the courts wouldn't be very enthusiastic about enforcing a promise to assassinate the President of the United States, or a promise made by a 3-year old child, or a promise made under duress, and there are some other exceptions. A judge would take a very dim view of a promise made under duress by a 3 year old child to assassinate the President of the United States—so don't even try to bring this one to court. However, within reason you are free to form a contract involving virtually anything you can imagine and find someone to genuinely assent to.

Look beyond this license agreement

When drafting up an agreement, it's easy to focus on the deal at hand and simply provide both parties with what they need—at the moment the agreement is signed. This can be problematic later on when the situation changes and third parties get involved.

It's good advice to prepare the contract bearing in mind how you would feel about handing your paperwork over to the due diligence lawyers representing a corporate acquirer and how you would feel presenting the contract provisions in a court of law. An acquisition of your company could be lucrative for you and passing the due diligence process could become a top priority in future when you're trying to close a sale of the company. If you do find yourself in court, you're going to want to win the case—and not be embarrassed by your contract provisions in the process. So, look beyond the current transaction and bear these scenarios in mind when drawing up your licensing agreement.

Stay focused

When entering a contract it clearly doesn't make any sense to commit to perform any more promises than you have to. One mistake that technologists and salespeople make when forming contracts is that they sometimes throw in all types of unnecessary information. A salesperson may make a claim about the superior quality of the product, or the huge size of the market. A technologist may throw in a claim that a competing technology is flawed, or that the technology is patentable. Claims of these types may help convince the buyer and help close the deal, but they are best left to the pre-contract discussions and kept out of the contract itself. If you put them into the contract they form representations upon which the other party can claim to rely. If the representations are not fully accurate, like the market size is \$4bn rather than the \$5bn you claimed, then the contract can be deemed breached, terminated and you could be sued for damages.

So stay focused—don't represent details if you don't have to. Don't attach detailed proposals or any other documents and make sure you include an Entire Agreement provision (see below). Keep the contract, especially the claims and representations, as concise as you possibly can.

Having established that a contract is an exchange of promises that is enforceable in court, let's move on to the main subject of this paper—the formation of outbound technology licensing agreements. We can start with the license grant.

Scope of the license grant

The license grant describes that bundle of rights that are being transferred from the licensor to the licensee. When licensing out, you want to keep the scope of the license as narrowly tailored to the needs of the licensee as you possibly can. If the licensee really needs a broad, exclusive bundle of rights then this could seriously restrict your ability to generate revenues from other clients. For a startup, a licensing arrangement giving away broad perpetual rights to the company's sole technical asset could act as a poison pill¹ and render the business virtually worthless to a corporate acquirer.

Scope of the license grant—technology to be licensed

When defining the technology that is to be licensed, it's in everyone's interests to be specific. As the licensor, it's in your interests to be as restrictive as possible.

You may be proud of your technology, and firmly believe it to beat anything else on the market, but in the agreement, you want to be as cautious and as reserved as the licensee will allow you to get away with. The contract is not the place for ambitious claims or technical features and specifications that may be difficult to deliver. If you over-promise here, and subsequently under-deliver, this could trigger a breach the contract and you could find yourself forced to pay out significant damages. So it's in your interests to be as specific as possible when defining the technology to be licensed.

Scope of the license grant—license to use or promise not to exclude?

As you will learn in more detail later on, a patent doesn't give you a right to use the technology yourself—it gives you a right to exclude others. In drawing up technology licensing agreements for patents you need to take care—if you don't have a right to use the patent yourself, you can't license such a right to anyone else. What you can do is promise not to enforce your rights under the patent to exclude the licensee from using the technology. This doesn't make your patent any less valuable, but it is a more accurate way of structuring the agreement.

Scope of the license grant—duration

Is the license perpetual or for a fixed period of time? Perpetual licenses go on for ever. Licensors generally try to limit the duration to the minimum period of time possible—or at least something less than forever. If the technology has a useful lifespan of, say 5 years, you don't want to be asked to support it years after it is obsolete. We generally try to avoid discussing end-of-life issues, but they do need to be considered in technology licensing agreements.

Small companies should take care in entering perpetual licensing arrangements, especially when they're providing the licensee with broad rights. Granting a licensor perpetual, irrevocable rights to your technology may act as an unintentional poison pill provision when it comes to finding an exit route for your investors and selling the company. What corporate acquirers are often looking for, in the technology sector at least, is the opportunity to acquire exclusive distribution rights. If your technology is your most valuable asset, and you don't want to cut off any chance of selling the company at some point in future, you're going to want to limit the term of the license. If a corporate licensee can win broad rights to your technology in perpetuity, there's no point in it buying your company—the licensee already has all distribution rights it needs. An existing perpetual, broad licensing arrangement will make your company an unappealing target for other potential acquirers as well. So, unless you have no interest or intention of cashing out by selling the Company or selling exclusive rights to the technology in future, it's important to limit the term of the license.

¹ "Poison pills" are contract provisions intentionally adopted by management to make a company unattractive to a prospective acquirer. These measures are typically deliberately adopted by the officers and shareholders of companies to prevent them from becoming targets for acquisition. But they are sometimes inadvertently created by technology startups licensing away too many rights to their technology assets. See my related paper: *Avoiding Unintentional Poison Pill Provisions—Advice for Startups and Early Stage Technology Developers When Entering Distribution and other Business Transactions*, David Smith 2006.

Scope of the license grant—revocation

If the licensee misuses the technology by exceeding the scope of the license or doing something else that damages your business, you will want the right to revoke the license. Unless you word it otherwise, an irrevocable license is, in fact, irrevocable—even for breach. So, if you license your technology for use in the U.S. only and subsequently discover the licensee is using it worldwide, you may lose trust in the client and decide to revoke the license altogether. However, if the license is irrevocable, the best you can do is restrict the client's use to the U.S. market. If the licensee is adamant that it needs an irrevocable license then you can negotiate the option to retain the right to revoke as a result of misuse or "material breach" of some sort.

Scope of the license grant—geography

If your licensee does business only in Australia, then you will normally want to do your utmost to restrict the scope of the license to the geographic borders of the country of Australia. Think of it as doing a favor to your licensee—if they're paying for a license for the whole Pacific region but they're only using the license in Australia, then they're paying for rights that they're not using and they don't need.

Scope of the license grant—field of use restriction

A smart licensor will understand the scope of the licensee's business and restrict the licensee from rights to the technology outside of a tightly tailored field of use. A field of use can be defined as a geographical region, marketplace, type of technology—whatever you are able to clearly define in the language of the provision. Today you may see no point in restricting your Australian licensee to use of the technology within mainland Australia, and you may be inclined to grant rights to the whole Pacific rim, but your position on this may change next year when you are approached by another licensee, with a handful of dollar bills. If the Australian client has no business in Japan, it could be detrimental to your long term business to grant him rights there. It's important for technologists to limit the scope of licensing grants to the bare minimum and restrict the rights to only those the licensee actually needs.

Scope of the license grant—right to evaluate

Before entering into a full license of the technology, the licensee may request some form of trial—an opportunity to test or try-before-they-buy. The right to evaluate is generally seen in an evaluation agreement, where this is the only right granted to the licensee, and it is restricted to a specified period of time. The evaluation agreement may be a short-term arrangement, typically following the initial NDA (Non Disclosure Agreement) and spanning a trial period before entering the full blown licensing arrangement.

If you provide your technology to the licensee for evaluation purposes only, you need to make sure that they return the technology, or remove any copies they may have, when the evaluation is complete.

Scope of the license grant—right to modify

If you take a screwdriver, unscrew the casing and disembowel your laptop computer, then solder a miniature microwave oven onto the motherboard, you're likely to have made a modification that has triggered an invalidation of the laptop warranty—and probably that of the microwave oven as well. For the record, I've never done this myself, have no intention of doing so, and wouldn't recommend it. The point is that there are consequences for modification. The laptop and microwave are clearly not being used in the way the manufacturers intended and the vendors are justified in claiming that such modification invalidates the warranties.

Depending on the nature of your technology, and your business, you may want to restrict the licensee's right to modify the licensed material. You may be concerned that a modification could lead your technology to malfunction, burst into flames or simply damage your reputation. In the license grant, you essentially need to define whether the licensee has the right to modify—but you might want to add a provision specifying the consequences when modification does occur.

Scope of the license grant—right to create derivative works

A derivative work is a whole work based on one or more other whole works. The concept of a derivative work comes from copyright law. Under copyright law, you're not allowed to copy the work of someone else, but you are allowed to create your own work based on someone else's work, as long as it's original. Confused? You're not alone; the courts sometimes find it difficult to draw the line between an original work and a derivative work as well. For example, the trial court halted the publication of the novel *The*

Wind Done Gone because it used elements and characters from Gone With the Wind. But the appellate court let the novel be published, holding that the use of those characters and elements was protected as an expression of free speech and use of the copyright materials from Gone With the Wind was ‘fair use’.

Licensees can create derivative works from all types of technology, but this can be a central issue in software licensing arrangements, especially when you are dealing with source code. Source code can be used to create all types of applications—derivative works. Unless you define clearly what the licensee is allowed to do here, you could be in for a dispute—it’s important to define clearly what a derivative work is and what the licensee is allowed to do with it. Otherwise, your proprietary rights to your technology could be gone with the wind².

Scope of the license grant—right to use

As an end-user installing Microsoft Word, when you click the ‘Agree’ button on your EULA (End User License Agreement) you are provided with rights to use the software. The right to use is a somewhat limited right. On its own, a right to use does not allow the licensee to distribute, resell, reproduce, create derivative works or do anything other than use it herself. As you’re probably expecting by now, you would be advised to define what ‘use’ means in the context of your technology.

Scope of the license grant—right to reproduce

Of course, if you are licensing the DNA to a new species of plant or animal, the right to reproduce would mean something more substantive, but in most technology licensing agreements the right to reproduce simply means the right to make copies.

You may want to be careful here about how many copies can be reproduced by the licensee. If the technology is delivered to the licensee on CD-ROM and you intend to simply allow the licensee to make a couple of backups to the master CD, you don’t want to provide an open ended ‘right to reproduce’ as this could be interpreted as the right to create thousands of copies.

Scope of the license grant—right to manufacture

In many situations, the right to reproduce will be identical to the right to manufacture, but this is not necessarily the case. In the pharmaceutical industry for example, a licensee may be allowed to reproduce the drug or compound in the lab, but this right will not extend to manufacturing. Manufacturing involves assembling a process and tooling up to reproduce in volume and can be interpreted to imply commercial distribution.

Scope of the license grant—right to bundle or OEM

When you buy your new PC from Dell, it will probably arrive packaged together with a copy of Microsoft Windows. Under this arrangement, Dell is known as the OEM—the “original equipment manufacturer”—and its agreement with Microsoft allows Dell to bundle its PC and the Windows software together. This arrangement is convenient for the customer, as the PC would be virtually useless without the operating system and the operating system would be virtually useless without the PC.

You can guarantee that the OEM agreement between Microsoft and Dell is a lengthy document that defines in fine detail precisely what rights are transferred, what volumes are covered, how the bundle will be prepared, tested, manufactured, delivered, supported, branded, marketed and what happens in the event of failure or delay.

As an OEM contract is a distribution arrangement, at least two licensing contracts are involved. One contract would be between the licensor and the OEM—in our example this would involve the agreement between Microsoft and Dell. A second contract would be formed between the licensor and the customer—this would equate to the end-user licensing agreement (EULA) that has to be accepted before Windows first boots up. If you’re providing the licensee with a right to bundle or distribute your technology in an OEM-style arrangement, be prepared to negotiate at least two detailed contracts—one between you and the OEM and another with the ultimate licensee.

² Sorry, couldn’t help it.

Scope of the license grant—right to sell

Are you providing the licensee with the right to sell the technology to other customers? This right usually appears in conjunction with others such as the right to manufacture and it is often implied in the right to bundle, OEM or sublicense. If the licensee is allowed to sell the technology, are you going to set any restrictions on the price, or the type of customers the licensee is allowed to approach? The license agreement should answer these questions to avoid any confusion and prevent dispute.

Scope of the license grant—right to sublicense

Related to the right to sell, the right to sublicense provides the licensee with the right to license to others. The sublicense can't be more expansive than the license itself—so if your licensee only has rights to Madagascar, under a sublicense she can't grant rights to Peru. Nevertheless, you can restrict the sublicense even further. You could provide a license to use the technology in Madagascar, but restrict the ability to sublicense to French-speaking Madagascans only.

Scope of the license grant—right to transfer

Each party to a contract has rights and owes duties to the other party. When one party assigns the contract to an outsider, both the rights and duties are shifted and the outsider is required to perform the duties of the original party. So, if your licensee assigns the agreement to ABC Corporation, you are expected to support and perform for ABC Corporation under the contract in exactly the terms as the original licensee. So you have to provide the same service to ABC, but ABC is also contracted to pay you and honor the terms of the license.

A transfer is somewhat different to an assignment in that the duties are not necessarily transferred along with the rights. So, under a transfer instead of an assignment, you could find that you are obliged to support ABC as the transferee, but you have to look to the original licensee for payment. ABC could violate the terms of the license and you have no recourse except against the original licensee.

In licensing arrangements, the right to transfer often appears in connection with affiliates and subsidiaries. If your licensee is a huge mega corporation with hundreds of subsidiaries, it is likely to request a right to transfer the license it acquires from you to one of its subsidiary companies. It may sound reasonable to have the right to transfer, but this could be costly to you as the licensor. What if your licensee is based in the U.S. and transfers its right under the licensing agreement to ABC Corporation in China? The good news is that the transfer has relieved you of duties to support the original U.S. licensee, but the bad news is that you have to now support ABC in China. ABC may be under no contractual obligation to honor the licensing terms you entered into with the licensee. The rights were transferred to China but the duties stayed in the U.S. I have nothing against China, or the U.S. but the point is that transfer right needs to be looked at very carefully.

Of course as licensor you would want to prohibit the right to transfer altogether—and while you're at it restrict assignments as well. However, your licensor may demand transfer rights and the best compromise may be to restrict the right to transfer to certain predefined situations such as a merger or acquisition of the licensee. This would allow them to facilitate a future acquisition but prevent them from forcing you to deal with a third-party.

Payment & terms

The fee component of a technology licensing arrangement can be structured in a variety of ways including up-front fees, recurring fixed fees, royalties on sales, support fees and consulting and professional service fees. The structure depends on the nature of the technology, industry norms, the relative bargaining power of the licensor v. licensee and the personalities and personal preferences of the individuals negotiating the deal.

This is an area where the agreed structure needs to be very clearly, and unambiguously, spelled out. Illustrations and example fee calculations can help remove ambiguity and help you ensure that you will be paid what you expect, without having to turn to the court for contract interpretation and enforcement.

Issues often arise around royalty calculations. Let's say the agreement specifies that the licensor will receive a 10% royalty on the sales of the licensee. Does this mean 10% of gross sales—including tax? Are sales calculated as ultimate sales to the end user, or sales to the distributor or intermediary? You have to define very clearly what sales figure will be used as the basis of the 10% royalty calculation.

Payment terms are another source of frustration, aggravation and litigation. It's important to spell out when payments are due to be made and what the result will be if payments are late. Of course, interest charges can be attached to late payments but the licensee is going to be much more likely to pay on time if the contract provides the licensor with the ability to switch off a critical service or somehow disrupt the licensee's business in the event that fees are unpaid for a considerable period of time. One of the most useful provisions you can incorporate into the contract is a painful consequence for the licensee as the result of late payment.

License restrictions

To avoid confusion, it's a good idea to explicitly restrict the licensee from using the technology in a way that you don't want. There's little to lose from spelling out what the licensee is not allowed to do with the technology. For example: "Under no conditions could the language of this agreement be interpreted to give the licensee rights to solder a small microwave oven to the PC motherboard". It may appear unnecessary and redundant but lawyers are trained to be very creative when it comes to interpreting the language of contract provisions.

It is clearly in your interests to be as restrictive as possible when setting the scope of the license. Bear in mind that a potential acquirer of your company, or your technology, may have a wider scope of business than you do yourself. So, you may see no problem in granting rights for a licensee outside of the scope of your existing business, but the scope of your business could change dramatically in the future, especially where mergers and acquisitions are involved.

Outside the field of use

Where use of the technology is restricted to a specified field of use, it is good advice to define what that field of use does not include as well as what it does. Imagine that you grant the licensee exclusive rights to your technology for the country of Iceland. In your mind the licensee has exclusive rights to Iceland and no rights whatsoever outside Iceland, but you later discover that the licensee is working on the understanding that its rights to Iceland are exclusive but its rights outside of Iceland are non-exclusive. This could become something of a problem, especially if you have licensed exclusive rights to Greenland to another licensee and it finds itself competing with your Iceland licensee. This situation would be avoided with a statement in the agreement that the licensee has no rights to the technology outside of the specified field of use—"outside of Iceland, you have no rights to use, make or sell the technology in any way whatsoever".

Downstream rights

The license restriction language is often used to define what licensees are restricted from doing with the technology when it comes to creating a stream of distribution by extending rights to third parties. Sub-licensing and bundling are two areas that often concern licensors. If it's important to you that the licensee is restricted from sub-licensing or bundling, spell it out in the agreement—using language that even the most creative lawyer would find it difficult to dispute.

Infringement of third party rights & indemnification

Under the license agreement, you're essentially selling the rights to use your technology. The licensee could pay you for these rights, and find itself subsequently forced to defend a lawsuit from another company claiming big bucks because your technology violates its patent. This is not an unlikely scenario—it happens all the time. The patent holder can bring a lawsuit against anyone and everyone using technology infringing its patent—so the patent holder could sue every single one of your licensees in separate lawsuits. The legal costs of simply defending one suit will run to millions of dollars but the legal costs can be dwarfed by the damages—as the court can award damages in the tens, or hundreds of millions of dollars for a patent infringement suit. This is obviously a big deal, so let's look at how it can be addressed in the contract.

Non-infringement representation

As the licensor, you can expect to be asked to guarantee that your technology does not infringe the patent, trade secret, copyright or any other form of intellectual property right held by a third party. This sounds reasonable in view of the potential liability facing the licensee, and the fact that you actually developed the technology so you should be in a position to know about such infringement. However, it's impossible for you to safely guarantee that your technology does not violate one of the millions of patents that are recorded in the United States Patent Office database or any of the other patents databases.

worldwide. If you could analyze several million patents today and reach a firm conclusion that there was no possibility of infringement, how would you be sure that a relevant new patent is not registered overnight? You can't.

Here's one of the awful secrets about patents. Even if you hold the patent yourself, you don't necessarily have the right to use the invention yourself. Yes, you read that correctly. Holding a valid patent doesn't mean you have the right to use it. A patent gives you the right to exclude other people from using your patented invention—so you can sue others for using it but you can't automatically use it yourself because your use of the invention may overlap with and violate a patent held by someone else. This brilliant form of legal logic derives from the United States Constitution, so don't fight it or question it—just accept that this is the way it works.

Back to the question of whether you can provide a warranty that the technology to be licensed does not infringe any patents or intellectual property rights of any third parties—as we've learned, you can't. Well, of course you can do anything you want but you would be taking something of a risk and the licensee's lawyers would know that you're not exactly being honest here.

If you can't warrant non-infringement, what can you say? You could say something along the lines of “To the best of our knowledge, the technology to be licensed does not infringe any third party patent, trademark, copyright or misappropriate any trade secret”. Of course, you can't say that if you've been informed of a potential patent infringement or if you're in litigation on this issue. When it comes to patents, sometimes ignorance is bliss—if you're not aware of potential patent infringement, you are often in a better legal position than if you've done your homework and carefully researched all the competing patents.

Take care when making non-infringement representations. The best you're likely to be able to offer here is to warrant that you have no knowledge of infringement or that there are no pending lawsuits.

Indemnification against 3rd party infringement claims

Indemnification is a big scary word that most technologists and entrepreneurs avoid at all cost. ‘Aaagh—they used that “I” word so now I need to hire a lawyer!’ As you probably expected with this introduction, when you look at it, indemnification is not a difficult concept to understand. However, the better you understand what it means, the more you will appreciate why indemnification issues scare lawyers as much as they scare normal people.

What is the purpose of indemnification?

Indemnification means that if there is a lawsuit brought by a third party against your licensee, you will step into the shoes of the licensee and relieve it of the cost and responsibility of defending the suit. Your customer is essentially saying: “We're paying you for use of your technology—if you've violated someone else's patent and we're sued as a result, you (as the Licensor) agree to defend the lawsuit that has been brought against me with your lawyers, pay any resulting damages and pay all the costs of the defense.”

Are you expected to indemnify?

Is indemnification common in technology licensing agreements and, as licensor, would you be expected to provide it? The short answer is—yes. It can be negotiated but an indemnification clause is a common feature of high-technology deals. You may be able to cap your liability and set ground rules on what type of legal defense you're expected to pay for, but it would be unusual for you to negotiate your way out of providing some form of indemnification in a commercial technology licensing agreement.

What types of lawsuits could be involved?

The most obvious, and costly suit is likely to be brought for patent infringement—a patent holder sues the licensee because the licensed technology infringes one or more of its patents. Other types of suits may involve copyright, trademark infringement or misappropriation of trade secrets.

What is the scope of indemnification—what am I expected to pay for?

The classic indemnification provision commits you to pay for the cost of legal defense (the attorney fees) and the cost of the final claim—the amount the court says you have to pay the other side if you lose. The

average legal cost associated with litigating a patent infringement suit is around \$2.5m³ and the award paid by RIM to NTP in the recent patent infringement suit related to the Blackberry handset was \$612.5m. The dollars at stake in a patent infringement suit can be huge.

Nevertheless, the licensee may ask you to also pay additional costs such as the cost of substituting the licensed technology with a non-infringing replacement, lost revenues and lost profits as the result of work stoppage. As soon as you're dealing with lost revenues and lost profits, the dollar amounts add up very quickly.

Your exposure from indemnification could be huge. So you obviously need to negotiate this provision very carefully and limit the scope of what you're expected to pay for.

What about my limitation of liability provision?

One question that may be raised here is how is your indemnification affected if you negotiate a clause limiting your liability to a pre-defined cap? See Limitation of liabilities—licensors (your) liabilities *page 12*. If you say your liability under this agreement is limited to the amount licensing fees paid by the licensee, and this is, say \$50,000, and then there's a patent infringement suit brought against the licensee that's going to cost several million dollars to defend, which provision controls? Do you have to defend and pay several million dollars under the indemnification provision or does your liability top out at \$50,000? The answer to this question depends on how you word the limited liability provision. If you don't carve-out the indemnification liability and exclude this from the cap, then your liability is probably limited to \$50,000. This is obviously an area for some negotiation.

Can I limit my indemnification to U.S. claims only?

You can try to limit your exposure to certain types of claims such as patent claims based on patents registered in the United States. In fact, this used to be common practice and a U.S. only restriction was readily accepted by many licensees, but now that international patents are becoming more prevalent, and litigation is growing, licensees are understandably asking for global coverage.

Warranties

A warranty is simply a promise. The word warranty usually appears in connection with a promise by a manufacturer or retailer, that a product or service will be satisfactory or meet certain standards, but it can be used for any form of assurance or guarantee. If you fail to live up to a warranty, you may be liable for breach of contract.

In a license agreement, a warranty is normally a promise made to the licensee regarding the quality or performance of the technology being licensed. Warranties can be provided to the licensee in various ways:

- Expressly written into the agreement—where the agreement states certain guarantees as to the features and functionality the licensee can expect.
- Expressly written elsewhere—such as your web site or promotional materials.
- Verbally provided—when you're talking to the licensee in the elevator or making your sales presentation.
- Implied by law—the law protects consumers and buyers of all types of goods by automatically attaching a warranty that the product is of merchantable quality and fit for the purpose intended.

If you want to get away with providing no warranty at all, you are going to want a provision stating that the technology is provided "As Is"—and disclaim all other warranties implied or expressed. However, some types of products are subject to default warranties that are not expressed at all but implied by law.

Default warranties—warranties implied by law

The Uniform Commercial Code (UCC) governs the sale of goods virtually everywhere in the United States. I say virtually everywhere because it has not been adopted by the state of Louisiana. With its French history, Louisiana has very different laws from the other states in the union. Believe it or not, in Louisiana, it's against the law to gargle in public.

³ Costs \$2.5m average when more than \$1m at stake. Source American Intellectual Property Law Association (AIPLA).

Anyway, the UCC attaches an implied warranty⁴ to goods that are sold by merchants (as opposed to goods sold by private individuals—so you don’t get a warranty if you buy a car from your neighbor but you do if you buy it from a dealer). The question arises as to whether technology licenses qualify as goods. Goods, according to the UCC are basically objects that you can pick up and move around. A tractor is a good and you wouldn’t want to pick it up but the concept is that goods are tangible things that can be moved around—by men in hard hats with cranes if necessary. In the technology sectors, this means that the UCC warranty would attach to packaged software, in a nice shrink-wrapped box that can be moved around in Fry’s Electronics Superstores, but it would not apply to the licensing of software algorithms that are emailed to the licensee.

The UCC warranty basically says that the good has to be of merchantable quality and fit for the purpose intended. It has to conform to the promise or description on the packaging. So, pre-packaged software that claims to run on Windows XP, but consistently fails to run on Windows XP would be in breach of the implied warranty and a buyer would be able to bring a suit in court to recover damages.

Another implied warranty comes from the Magnuson-Moss Act, but this is designed to protect consumers. It does not protect purchasers that buy products for reasons other than personal, family or household use so you probably won’t have to deal with it in connection with your technology licensing agreement.

Disclaim all but express warranties

As the licensor, it’s in your interests to disclaim the UCC warranty and any other implied warranties in the agreement a provision along the lines of:

To the full extent allowed by law, the warranties and remedies stated in this agreement are exclusive and are in lieu of all other warranties, express or implied, either in fact or by operation of law, statutory or otherwise, or arising from the course of dealing between the parties or usage of trade, including warranties of merchantability and fitness for a particular purpose, all of which are expressly disclaimed.

Some states have modified the UCC so that a seller can not disclaim an implied warranty when the goods are purchased for personal, family or household use. Disclaimers of implied warranties are also usually ineffective if the product is so defective that it causes personal injury. The Magnuson-Moss Act also prohibits these disclaimers in connection with a written full warranty for a consumer product or service contract. As you’re probably not selling goods under your license agreement and you’re not selling to a consumer, your disclaimer of implied warranties will likely prove effective.

Disclaiming warranties that were expressed by you or your team but not written into the agreement is achieved through the Entire Agreements clause below.

Quality & performance warranties—express warranties

In your agreement it’s important to spell out precisely what warranties, if any, you are providing to the licensee regarding quality and performance of the technology licensed. There are two ways of describing what is being warranted:

- Subjective standard—involving some degree of personal judgment. Example: “Licensor warrants that the licensed technology will perform according to the reasonable expectations of the average customer”.
- Objective standard—involving no personal judgment at all. Example: “Licensor warrants that the licensed technology will deliver at least 325 megawatts of incryptolite neothone per hour”.

Obviously, a performance guarantee that involves a subjective standard is more fuzzy, hence more likely to land you in court than one that is defined with an objective standard. However, depending on your technology and the circumstances of the licensing arrangement, you may prefer the fuzziness and opt for this approach.

It’s also in your interests to limit the warranty period to a defined timeframe. With ongoing development and debugging, technology improves and is more likely to perform as time passes. For this reason, I am intrigued as to why technology licensing agreements often involve a warranty for the first 90 days or 12 months and then the warranty expires. So the warranty is provided when the product is less stable and is

⁴ Uniform Commercial Code § 2-314.

then terminated when the product becomes more robust. I guess this is just a remnant of the way warranty agreements are generally used outside the technology sector, so most people just accept that this is the customary approach.

Remedies for breach of performance warranty

A breach of warranty can put you in breach of the whole contract. A breach of contract usually means that the licensee is relieved of performing the duties promised to you and some form of compensation payable by you for the damages resulting from your breach (see *What does “Enforcement” mean? Page 1*).

You’re likely to want to take steps to prevent the breach of a performance warranty having such radical, and potentially expensive, ramifications. This can be achieved by stating clearly in the agreement what the remedy for breach of warranty will be. Instead of breaching the whole contract you may want to offer a refund, repair, or replacement. You can specify damages⁵ to be paid in the event of a breach of warranty such as:

If the licensed technology fails to perform according to the performance criteria, Licensor agrees to refund Licensee 1/365th of the annual license fee for each 24 hour period that such failure is experienced and recorded.

Instead of paying to remedy the failure, you may want to give yourself the opportunity to rectify it yourself.

If the licensed technology fails to perform according to the performance criteria, Licensor agrees to make best efforts to repair or replace the technology within 48 hours of notice of such failure.

Or

If the licensed technology fails to perform according to the performance criteria, Licensor agrees to make reasonable efforts to repair or replace the technology within 48 hours of notice of such failure.

So, you’re asking if there’s a difference between the first and second alternatives here. Is there a difference between ‘best’ and ‘reasonable’ efforts? This is a good question, deserving of its own heading—see *Best or reasonable efforts? Page 1*.

Refunds and revenue recognition

Wall Street investors put a huge amount of pressure on public companies to deliver results each quarter. Management teams are often eager to recognize revenues from deals—to show the revenues in their quarterly results—as soon as they possibly can. Nevertheless, the false inflation of earnings has dire consequences—companies go out of business, investors lose fortunes, CFO’s and CEO’s go to jail. Where is this all leading? Well, if your licensing agreement provides for a refund to the licensee, an auditor is going to frown on recognizing the revenue in the quarterly results that are presented to Wall Street and the SEC.

You may sign the agreement, deliver your technology to the licensee, receive payments, book the sales and recognize the revenue on your profit and loss account in Q1 but find yourself forced to provide a refund in Q2. You may then have to tell the investors that your results for Q1 were inaccurate as they were inflated with the revenue that has subsequently had to be refunded to the client. This is the point that all hell lets loose and people get upset. To prevent this type of scenario, auditors have become increasingly cautious about when and how to recognize revenue. If your contract provides for a warranty-based refund or an acceptance process—or any situation that gives the client the right to recover some or all of the funds paid—your accountants and auditors are going to be very reluctant to recognize the revenue until the possibility of refund has been virtually eliminated. So, in your licensing agreement, especially if you are a public company governed by SEC and Sarbanes Oxley regulations, your accountants and auditors are going to urge you to avoid provisions that allow for any form of revenue refunds.

⁵ This is often called a Liquidated Damages Clause (see *What does “Enforcement” mean?*).

Best or reasonable efforts?

The term “best efforts” may appear little different from the term “reasonable efforts”. There’s obviously a difference, but is the distinction significant from a legal perspective? It sure is. When dealing with contracts, there is a big difference between what’s “best” and what’s merely “reasonable”:

- “Best efforts” means the highest level of performance—more demanding than mere competence, due diligence or good faith. Best efforts implies a duty to take all action, do all things, and exercise all of skill, talent and available resources necessary to achieve the result required. You’re not required to bankrupt the company, but are required to take it to the brink of bankruptcy if that’s what it takes to perform.
- “Reasonable efforts,” is defined as diligent, reasonable and good-faith efforts to accomplish the objective.

The practical difference is that you are not expected to spend every available dollar and assign all your staff to the issue if you use the reasonable standard, but you required do all those things, and potentially bankrupt the company in the process, if you use the best-efforts standard.

Limitation of liabilities—licensors (your) liabilities

As explained in the introduction, if you breach the contract, the court can force you to pay damages to the other party as compensation. Unless you cap it in the agreement, the calculation of damages could be very significant. Imagine that you licensed your technology to the licensee for, say \$50,000. For some reason, you breach the contract and you find yourself in court. The court assesses the damages and tells you that you have to pay the licensee direct damages of \$50,000 plus \$1m in consequential damages for the licensee’s loss of profits. This doesn’t seem to be fair—as you are expected to pay significantly more than you received under the agreement. But this does happen—all the time. The liability limitation clause is probably the single most important clause in the contract.

Microsoft and other vendors have established a custom in the software industry where they cap their damages to the amount they receive from the licensee. So, in the example above, Microsoft could not be forced to pay more than the \$50,000 they received from the licensee. A simple provision would look like this:

In no event shall Licensor be liable for an amount in excess of the compensation it has received from Licensee under this Agreement.

This would likely be followed with an explicit disclaimer of consequential damages:

Except for a breach of (confidentiality clause) by either party, in no event shall either party be liable for any incidental, consequential, punitive, or special damages, lost profits, or lost data, or any other indirect damages, even if such party has been advised as to the possibility of such damages.

You’ll see that this provision has a carve-out for a breach of the confidentiality clause. Microsoft probably wouldn’t agree to this in its out-licensing agreements, but it is often required of software vendors with bargaining power that is somewhat less formidable than the Seattle giant.

Capping liability is perfectly acceptable and very common under U.S. law, but it is frowned upon in other countries, such as Germany, where the courts can refuse to limit the liability by contract. To allow for this, you will see provisions like the following:

The foregoing provisions shall be enforceable to the maximum extent permitted by applicable law.

Another carve-out you will often find is related to indemnification—see *Infringement of third party rights & indemnification page 1*. If you indemnify the licensee against potential multi-million dollar patent infringement claims from third-parties but you cap your liability at, say \$50,000, then the indemnification is not of much value to the licensee. Well, to be precise, the indemnification has a maximum cap of \$50,000. So, limited liability provisions often feature a carve-out for indemnification. A carve-out for indemnification has been referred to as a “back door to consequential damages” and can expose you to significant liabilities. But you may not be able to negotiate your way out of this provision as the licensee is going to want you to defend your own technology against infringement suits. It’s not an unreasonable

position—the logic goes that as you are the developer you’re in the best position to know whether you infringed and it’s in your interests to defend all such suits yourself.

Limitation of liabilities—licensee’s liabilities

In an ideal world, you will cap your own liabilities but leave those of your licensee unlimited. Yeah, right. Your licensee is not exactly going to find this to be a fair and equitable exchange. So how do you protect yourself from the potential damage that you could incur if the licensee does something awful like large scale unlicensed copying and distribution of your technology? You could have provision that says something like:

Except for a breach of the confidentiality clause by either party, or the unlicensed copying and distribution of the technology by the licensee, neither party will be liable for any incidental, consequential, punitive, or special damages, lost profits, or lost data, or any other indirect damages, even if such party has been advised as to the possibility of such damages.

You could then go on to define the damages that would result from unlicensed copying and distribution by the licensee—effectively creating a liquidated damages clause that forces the licensee to pay a defined dollar amount for each unlicensed copy that is produced.

It’s important to understand that these caps on liability are focused with the liabilities of the contracting parties to each other, not to end-user customers or other third parties. If the licensed technology is commercialized into a product that is subsequently made available on the market and causes personal injury, or another form of injury, then everyone in the stream of distribution can be held liable—including the manufacturer, distributors and retailers. As licensor, there are scenarios where you could be held to be negligent or responsible in some way and liable to the customer that suffers the injury, regardless of whether you have capped your liabilities to the licensee. Of course, your agreement with the licensee can address this issue, and you may be able to write a provision whereby the licensee assumes all the risk and relieves you of all liability. However, this would probably need a separate provision and it’s important to appreciate which risks are being addressed in your liability limitation clause.

Audit rights

How do you check that the licensee is operating within the scope of the agreement? How do you check how the technology is being used? Audit provisions are included in many software contracts to ensure the software is not being used on more workstations than those specified on the contract. Revenue sharing arrangements require audit rights allowing the inspection of financial records to determine what revenues have been collected and what needs to be shared with the other party.

You can craft an audit provision to provide you, or your agents, with access to the Licensor’s buildings, equipment, records and other resources to conduct an inspection. The provision will typically specify the frequency at which such audits can be undertaken and who pays for the associated costs. It would be unreasonable to expect the Licensee to agree to daily, weekly or even monthly audits, so they are normally done on a quarterly or annual basis. The costs are usually borne by the Licensor, however many provisions state that the cost will be borne by the Licensee, and other remedies will result, if the audit shows a significant discrepancy between what the Licensee is paying and should be paying under the terms of the contract.

Escrow

Because many high-tech startups go out of business, Licensees are often concerned about what happens if they grow to rely on the software only to find that the Licensor goes bust, or falls under a bus, or jumps under a bus after going out of business. Software Licensor’s have become accustomed to placing their source code in escrow. When the software developer goes bust (they usually do sooner or later), the escrow agent releases the source code to the Licensee. This sounds like a wonderful solution to a real problem but there are, of course, some serious gotchas.

Firstly, source code is often unintelligible to anyone other than the programmer that created it. Deciphering the source code and making something useful out of it could take years. The second problem is that the source code is often out-of-date and incompatible with the current state-of-the-art computers. This results from the fact that the software developer failed to put ‘Update Source Code at Escrow Agency’ at the top of his to-do list the day before he jumped under the bus. Software developers can be surprisingly thoughtless at times.

The third problem is that the triggers designed to release the source code to the licensee sometimes jam up and take years to actually fire. Imagine if the trigger stated “the source code will be released to the Licensee when the Licensor is declared bankrupt”. After the business has ceased to operate, and the developer has jumped under the bus, it could take years before the Licensor’s business is declared bankrupt. Bankruptcy proceedings take time. So, quick release triggers are often requested by the Licensee and a defined, fast-moving dispute resolution process is put into place.

You’re probably thinking that this escrow provision is getting rather complex. You’d be correct. That’s why it usually involves a separate contract all together. It’s common for the License agreement to make reference to an escrow agreement, or attach it as an exhibit.

Branding

Many technology licensing agreements involve some form of branding or use of trademarks. When Dell licenses chips from Intel, the agreement contains detailed provisions defining how and when the “Intel Inside” slogan and other trademarks can be used.

One form of co-branding is characterized by the term “Powered By”. Intel could stipulate in its agreement with Dell that whenever Dell advertises or promotes its PC’s, it has to use the words “Powered by Intel”. This is common in Internet website content agreements and other forms of license. The language normally has to specify the placement, size of the font and the prominence of the “Powered By” language in comparison with that of the product of the licensee— for example “the Powered by Intel slogan must be no smaller than half the height and width of the Dell logo and prominently placed on all advertising and packaging so that it is easily readable by the customer”.

If Dell and Intel entered into a private label arrangement, this would mean that Dell would be able to present the PC as its own, without referring to Intel at all. This obviously does not help Intel promote its brand, but private label arrangements are commonplace in the technology sector, especially where the licensee is significantly larger and more powerful than the licensor.

Assignment

Under an assignment, you could assign all rights and duties under the licensing agreement to a third party company. The third party company will pick up your duties to perform but they will also inherit your rights to payment. Under such an assignment, you will be removed from the contract altogether and the third party company will essentially step into your shoes. This may sound like an unappealing option at the point of entering the contract, but if things go wrong it can appear increasingly appealing in future. However, the most likely scenario for assignments to take place is in a merger or acquisition. If you sell your company, it can simplify the transaction if the contract can be assigned to the acquirer.

So, you want to maintain the right to assign, but as discussed in *Scope of license grant—right to transfer above*, it’s in your interests to restrict the rights of the licensee to assign. This doesn’t sound like a fair deal—you get to assign and they don’t. Depending on your bargaining power, you may be able to get away with it but a compromise is often reached in these situations. The compromise is that assignment is disallowed for both parties, but there’s an exception in the case of merger or with mutual consent.

Publicity

Issuing a press release saying “we have entered into a licensing agreement with XYZ” may have a promotional advantage. On the other hand, the licensee may see it as a disadvantage if it alerts competitors to their strategic plans. This type of publicity can demonstrate momentum, create a positive buzz and can be particularly valuable establishing credibility for small, immature startups when licensing their technologies to large, respected corporations.

If you announce the transaction to the world without realizing that this violates the confidentiality provisions of the agreement, the other party could sue you for breach of the confidentiality provisions of the contract. So it’s useful to specify in the agreement what each party is allowed to do in terms of publicity. Depending on your objectives and the agreement with your licensor, you can word the publicity provision to say “zero publicity”, “publicity with mutual consent”, or “let’s maximize the publicity”. Just make sure you’ve thought it through, you have it written into the agreement and you know how to control your employees, especially the blab-mouths, when it comes to disclosing information on the licensing arrangement to the outside world.

Confidential Information

A technology licensing agreement often involves providing your licensee with sensitive information. Your business could be seriously affected if the licensee releases your secret sauce recipe into the public domain or discloses it to a competitor⁶. On the other hand, the licensee may provide you with information that it holds to be highly valuable and wants you to protect.

The information exchange in a technology license agreement can be somewhat one-sided. As the licensor, you may be providing the licensee with highly sensitive and valuable source code, designs, inventions, secret recipes or other forms of trade secrets. On the other hand, the information you receive from the licensee is merely marketing information that you don't need. It doesn't make sense in this situation to have a two-way confidentiality agreement that exposes you to liabilities for disclosing information that you don't need, or want. It makes more sense to structure a one-way confidentiality arrangement that restricts the licensee from misusing the valuable information you provide to them, but places no similar restrictions on yourself. The licensee may object to this but you can tell them not to give you any information that may be sensitive—"I don't need it, don't want it, so don't give it to me".

Don't be afraid of refusing to agree to receive and protect information that you don't want. If you've ever presented to a venture capital investor, you'll be aware that they refuse to sign non-disclosure agreements ("NDA"). Investors do this because they see so many companies and read so many business plans that signing an NDA agreement with each and every one of them would expose the venture firm to huge liability and restrict its ability to invest in any of the competitors of the companies they have met.

The confidentiality provision has to be read on conjunction with the cap on liability. See *Limitation of liabilities—licensee's liabilities page 13*. If the cap on liability for both parties is \$50,000, then this restricts the damages you can demand from the licensee for breach of confidentiality, although such breach could cause serious damage to your business. So, in the liability limitation provision, you are going to want to carve out breach of confidentiality from the cap on liability. A typical carve out will appear as follows:

Except for a breach of the confidentiality provision, in no event shall either party be liable for any incidental, consequential, punitive, or special damages, lost profits, or lost data, or any other indirect damages, even if such party has been advised as to the possibility of such damages.

Termination

Termination is another provision that leads to lots of disputes, litigation and sleepless nights for technology licensors. The termination clause should spell out clearly how the contract can be terminated, by whom, with which form of notice and under what conditions.

Defining who gets to pull the termination trigger and under what conditions is only a part of the termination process.

Effect of termination

What happens after the termination has been triggered can become a critical issue and needs to be carefully considered in the contract. What happens to the licensee's rights? What happens to outstanding payments? What about software escrow arrangements? How are customers supported? The effect of termination provision can become quite detailed and lengthy. It's not the most glamorous aspect of the agreement, and is not the provision that you're going to focus on when selling the arrangement to the licensee, but it could be the one that is most scrutinized when it comes to closing out the partnership.

General contract provisions

Before you put down this paper and venture out into the world of technology licensing, it's worth taking a quick look at some boilerplate contract provisions such as the Entire Agreement "incorporation" clause and the Jurisdiction clause that defines where and how disputes will be handled.

⁶ For more comprehensive coverage of this area see my upcoming paper "A Technologist's Guide to NDA Agreements".

Entire agreement

The purpose of an "entire agreement" clause in a contract, sometimes known as a merger or integration clause, is to prohibit the introduction of any other evidence, oral or written, to vary or add to the terms of the agreement. The presence of this clause in your contract is designed to be conclusive evidence that it is the final, entire, and complete agreement and that nothing else (such as a letter of intent, earlier drafts of the agreement, or oral testimony of the other party) may be introduced in court to demonstrate otherwise. The "entire agreement" clause incorporates all discussions into the written agreement.

Here is a sample clause:

This Agreement and all other agreements, exhibits, and schedules referred to in this Agreement constitute the final, complete, and exclusive statement of the terms of the agreement between the parties pertaining to the subject matter of this Agreement and supersedes all prior and contemporaneous understandings or agreements of the parties. This Agreement may not be contradicted by evidence of any prior or contemporaneous statements or agreements. No party has been induced to enter into this Agreement by, nor is any party relying on, any representation, understanding, agreement, commitment or warranty outside those expressly set forth in this Agreement.

The "entire agreement" provision means that you, and the court, look to the agreement itself to determine what was promised, rather than "he-said, she said" verbal discussions or email trails. If you say that this writing forms the entire agreement with relation to this license, then all the other discussions and correspondence are unlikely to have a bearing in any court proceedings.

Jurisdiction & governing law

When it comes to litigating the contract in court, you ideally want to find a court that is competent, convenient—and ideally in your own back yard. If you are dealing with a licensee in another state, depending on the circumstances, the case may be dealt with in your state court, their state court or U.S. federal court. A typical provision will look as follows:

This Agreement shall be governed by the laws of the State of California, without reference to conflicts of law principles. Both Parties consent to submit to the jurisdiction of the Superior Court of the County of Santa Clara, California and waive the right to object to venue being set in Santa Clara, California.

Of course, your choice of jurisdiction may differ from that of your licensing partner. If your licensee is looking for New York law, and you're looking for California, a good compromise may be to select Delaware. As many corporations are founded in Delaware, the court system there is very accustomed and competent when it comes to dealing with business issues.

Alternatively, you could opt out of the court system altogether and agree to have any disputes settled by binding arbitration. Arbitration can be quicker, easier and less costly than going to court, but the decisions are sometimes more unpredictable—arbitration is criticized by some as being "arbitrary".

Conclusion

Licensing your technology will never be as simple as selling household goods on eBay—the licensing arrangements have so many dimensions to them that there is no one-size fits all contract template. Technologists and entrepreneurs are well advised to hire the most competent, experienced and expensive lawyers they can find to help them structure technology licensing agreements that stand the test of time and result in profitable relationships for both licensor and licensee. However, everyone entering into such a contract should be aware of what they are committing to, and what each of the most important provisions means. This paper and the referenced materials should provide non-lawyers with a basic understanding of what the terms of a technology licensing agreement mean to them, their business and their licensing partners.