

An Overview of Licensing

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Technology Contracts

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AN OVERVIEW OF LICENSING

I. INTRODUCTION

This paper covers some of the more common topics in relation to licenses. This paper will canvass the following areas:

1. Intellectual property due diligence
2. Types of licensing arrangements;
3. Licensing grants and use restrictions;
4. Royalty provisions;
5. Risk allocation;
6. Term and termination;
7. Technology licenses;
8. Software licenses and related maintenance and support services; and
9. Software as a Service agreements.

One thing that we often tell clients who may not be familiar with license arrangements is that the only limitation in a licensing arrangement is the limitation of one's imagination. This is our way of telling clients that a license can be used to reflect any relationship and arrangement between the parties. Obviously, there are many circumstances in which a license may not be appropriate. An example would be the case of an outright sale of the intellectual property. The other side of this coin is that the more complicated the arrangement the more complex the agreement. This adds time and cost to draft the agreement.

II. INTELLECTUAL PROPERTY DUE DILIGENCE

Due diligence is the investigation of the assets and liabilities and the business undertaking of a company to assist in understanding the nature of what is being purchased or licensed. In the context of a license, due diligence provides an understanding of the rights of the licensor in the intellectual property being licensed. If the licensor does not have those rights, the licensee will not have those rights under a license and may be infringing third party rights.

A. Scope of Due Diligence

When acting on behalf of a licensee, it is important that there be an understanding of the due diligence to be carried out. As well, the licensee should understand any limitations of the due diligence undertaken. Intellectual property due diligence can be a time-consuming and costly activity. As well, there are limitations to the due diligence on the intellectual property that can be done. This is due, in part, because it is impossible to obtain all the information required and there is nearly an endless number of issues that can arise.

Below are a number of factors that may play a part in determining the scope of due diligence:

- cost and time of conducting the due diligence;
- the rights to be obtained under the license;
- nature and value of the intellectual property;
- certainty that can be obtained from the due diligence;
- risk profile of the client; and
- the representations, warranties and indemnities that the licensor is prepared to give.

It is important to educate the client on various due diligence activities that can be undertaken as well as the limitations of the due diligence so the client can make an informed decision in giving instructions to the lawyer on the scope of due diligence to be undertaken.

B. Intent of the Licensee

The intention of the licensee can have a significant bearing on the scope of due diligence. Below are some of the issues to be considered when assessing the intent of the licensee:

- How does the licensee intend to use the technology/intellectual property?
- Which markets does the licensee intend to sell in?
- Which products and services does the licensee intend to sell?

Based on the intent of the licensee, an initial step in the due diligence process is to establish some form of inventory of the material intellectual property needed by the licensee.

Understanding the intent will also help to ensure that the terms of the license agreement are sufficient for the licensee's needs.

C. Public Record Searches

Some intellectual property, such as patents, must be registered at governmental intellectual property offices. Some intellectual property, such as copyright and trademarks, may be registered at governmental offices, although it is not required. Others, such as rights to proprietary information, cannot be registered. As part of the due diligence, the intellectual property registries should be searched to locate the relevant registered intellectual property. The information on file at the registry can also be obtained for review.

The following are some of the searches that can be conducted:

- The records at the relevant intellectual property office can be searched to determine who is listed as the registered owner of the intellectual property. For example, it is not uncommon for an employee of the licensor to be listed as the registered owner of a patent.
- The records at the relevant intellectual property office can be searched to determine the status of the intellectual property. For example, is it registered or still being prosecuted to registration? Has the intellectual property registration expired or lapsed?
- The records at the relevant intellectual property office can be searched to determine whether or not any interests have been recorded against title to the intellectual property. For example, an exclusive license may have been registered against a patent.
- A search of intellectual property records can determine whether or not all required maintenance fees have been paid. If they have not been paid, there is a risk the registered intellectual property will lapse for failure to pay maintenance fees.

D. Contract Review

As part of the intellectual property due diligence process all relevant contracts of the licensor can be reviewed. The types of relevant contracts in question can include licenses, joint venture contracts and product development, consulting and manufacturing contracts. Many of these contracts will grant to third parties the right to use the licensor's intellectual property. As well,