

# Negotiating a Licensing Agreement

By

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**First Published Inventique, November 2004**

It is advisable that initial negotiations with third parties regarding the exploitation of any invention should wherever possible be conducted under an obligation of confidentiality, writes Dr Rosanna Cooper. As soon as possible after the initial negotiations, an inventor should incorporate the main commercial and legal terms of any negotiations in a formal document called Heads of Agreement or Memorandum of Understanding (MOU), which should be signed by both parties. It is important to note that when an MOU is signed by the parties, a binding contract is not formed at this stage and either party may withdraw from

negotiations at any time. The MOU simply shows the intention of the parties. The terms on which the parties agree will form the basis of the main contractual agreement - the licensing agreement.

At RT Coopers we offer special Packages ('Packages') for inventors and for one of our Packages we provide a confidentiality agreement, conduct negotiations as well as draft a MOU and licensing agreement. This article focuses on the main contractual terms that should be included in a commercial agreement such as a software licensing agreement.

## Main Contractual Terms

The main contractual terms are set out below:

### *Confidentiality*

It is crucial not to divulge any information regarding your invention without having entered into a binding confidentiality/non-disclosure agreement. The terms and scope of this agreement take on more significance where the potential commercial value of the invention/products is high.

Confidentiality is an important factor in any commercial agreement and must be considered at the negotiating stage in particular at the outset of negotiations. Confidentiality is important especially for inventors that have not yet protected their inventions by filing a patent application but might be looking for investment, a distributor or manufacturer in order to exploit their inventions. In order to reach agreement with such third parties, certain aspects of an inventor's product or invention would have to be disclosed. Should negotiations subsequently break down, it is essential that the information that had been disclosed does not become publicly available, used by the receiving party or fall

into the hands of competitors. To avoid this situation occurring, confidentiality agreements must be signed before negotiations commence and information regarding an invention disclosed.

### *Intellectual Property Rights*

The intellectual property rights that may be afforded to software are copyright and patent rights. The software may be packaged and the name of the product registered as a trade mark. However, patenting of software is a highly complex area. At RT Coopers, we would take you through the process and assist you in the protection of your software.

Particular consideration should also be given to confidentiality in respect of your intellectual property rights. This is important, as certain intellectual property rights such as patent rights are not capable of protection once the information has been disclosed to the public. The licensing agreement must therefore ensure adequate protection of your intellectual property rights including any improvements to existing products, ownership of existing rights and the ownership of any future rights

created. The ownership of the intellectual property rights are important, this means that you must own the rights in the software before you license it.

The licensing agreement may provide for the party to make applications for new rights and attend to the payment of any fees or

### ***Term and Termination***

The agreement should specify the duration of the contract. This may be by means of a fixed term or continuing term until the happening of certain events or notice of termination by the parties. The agreement should clearly specify the procedure for

### ***Jurisdiction***

The agreement should specify which law is to apply to the agreement. This is particularly important when business is conducted over the Internet as several jurisdictions may become involved. Such a clause will avoid any initial dispute over

### ***Arbitration and Dispute Resolution***

Dispute Resolution is a means of resolving disputes through an independent third party. The third party may suggest a solution but cannot impose the solution on either party and the parties may withdraw from the negotiations at any time. If at any stage the parties agree a solution, this should be in writing and signed by both parties at which point the agreement becomes a binding agreement.

### ***IT and Internet Considerations***

Any business relationship must consider information technology (IT) issues such as registration of a domain name, the software and hardware packages to be employed e-

### ***Exclusivity Warranties and Indemnities***

As the agreement is specifically in relation to a software licensing agreement, the following issues should be considered in addition to the above by the licensor/inventor:

registration required. The agreement may also provide for the parties to take conduct of legal proceedings against a third party should a right be infringed plus payment for the legal action. RT Coopers provides advice and assistance on intellectual property advice to inventors as part of a Package.

either party to terminate the agreement by setting out how notice is to be given, time periods for the notice and the address and method of service of such notices. The termination clause should specify the events that trigger termination of the agreement such as insolvency and breach of agreement.

which law should be applied to the agreement. An inventor based in England or Wales should ensure that the jurisdiction expressed in the agreement is the English Courts and that English law is applied to the agreement.

In the event of a dispute arising, litigation through the courts can often be costly, lengthy and public. Many agreements therefore provide for disputes to be resolved by means of arbitration or dispute resolution. The arbitration clause in the agreement will specify how the arbitrator would be appointed. At RT Coopers, we have expertise in conducting intellectual property litigation on behalf of our clients.

mail policies, clearly displayed terms and conditions on the website if transactions are to be considered by this means and IT personnel.

- Is the licence to be exclusive (excluding all but the copyright owner) or non-exclusive? If the licence is to be exclusive, for which territories? The licence should state whether the granting

of any sub-licences is permissible or prohibited;

- The software that you are licensing should be clearly identified and described with appropriate provisions for use and restrictions on the number of users. Therefore, agree whether the licence is only for use on a specified number of computers, restrictions on copying or alterations of the software. It should be noted that temporary copying of copyright material is an infringement of copyright.
- You should include warranties and indemnities clauses where appropriate in the licensing agreement. Such clauses tend to be heavily negotiated. A warranty is a promise by the licensor that a particular statement is true. There are certain standard warranties with regard to software licensing such as fitness for purpose, reasonable skill and care exercised, reasonable steps taken to avoid virus attacks, no adverse effect related to pre/post year 2000 and software ability to handle European currency. However, most software licence agreements will exclude the implied statutory terms (within the limits of reasonableness laid down by law) and will substitute with express terms. A licensor cannot totally exclude his liability.
- An indemnity is a means of compensation for any loss, damages, claims or penalties suffered as a result of the default of the licensee. This is important in software licensing and the inventor must insist on the inclusion of an indemnity in the agreement in the event that the licensee infringes a third party's rights. The licensee may also demand an indemnity in case the software was copied and to cover any infringement action that may arise as a result.;
- Personnel, expert staff may be required for continuing support and maintenance. The licensee must have adequate insurance cover. A licensor must have product indemnity insurance in place.
- Commercial terms on delivery, acceptance, and payment should be

clearly incorporated into the software licence agreement. Therefore consideration should be made on how the software would be handed over to the licensee i.e. by providing the software object code or source code, the agreement should specify the tests which the software has to pass in order to be accepted by the user, and whether payment will be a one off payment or a periodic fee? Problems may arise because the parties "ideal" situations on payment may differ and are subject to negotiations. Provision should also be made to account for interests on any overdue royalties;

- The level of royalties that the licensor receives is a crucial commercial term.
- The licence must ensure that the licensor retains all intellectual property rights in the software, the source code and the object code;
- Consider entering into a Source Code Escrow Agreement whereby in the event of the licensor failing to provide the agreed software maintenance to the licensee, the source code would be released by the escrow agent and not the licensor;
- Provision should be made for the term of the licence and termination. Often software licences are perpetual but do not need to be, the parties may agree an appropriate term. Consideration on termination is important, for example, which events will trigger termination, length of notice required, will compensation to be payable on early termination, should all be considered;
- Infringement by third party - the licence may state that the licensee is to pay damages if it permits a third party to copy without consent;
- Provision should be made for defects in the software. What constitutes a defect? Is failure to perform a specific task a defect? Or is a defect an operation that is outside the capabilities of this software? Consideration should also be made for bugs, viruses and faults in the program; and

- The licence should state that any improvements or modifications by the licensee are to be owned by the licensor subject to competition law.

### Conclusion

This is an overview of the main terms that should be included in a licensing agreement which can equally be applied to any form of licensing agreement, such as a distribution agreement.

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