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Navigating License And Joint Development Agreements; Avoiding Litigation



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| Open Source Software | Standard Essential Patents

Where is the opportunity for improvement?

- **Closer relationship between purchasing/sales and IP departments**
 - License agreements are more often an element of the purchasing/sales process
 - Understanding the implications of open source software licensing
 - Understanding the implications of “Standard Essential Patent” licensing
- **Better management of IP ownership *during* joint development projects**
 - Litigation is not a good place to start the process
- **Managing improper proprietary designations during joint development projects**
- **Addressing indemnification and warranty in a non-traditional supply chain**

Licensing as Element of Purchasing

- **“Purchasing” today often includes a parallel licensing component**
 - Software Ts & Cs
 - Standards bodies royalties
- **Purchasing departments may be unfamiliar with IP implications**
 - Software Ts & Cs
 - Trade secrets associated with the supply of licensed software (and associated documentation)
 - “Boilerplate” restrictions on software use that impact ability to change suppliers
 - Presence of open source software: your obligations and your customer’s obligations
 - Patent & Standards Royalties
 - Payments can set a benchmark that can give rise to royalty stacking (Standard Essential Patents)
- **Ensure purchasing is aware of the issues, and implications, so they can involve internal IP counsel at the negotiating stage.**

Addressing IP Ownership In Joint Development

- **In today's collaborative environment, this can get complicated quickly.**
 - IP often exchanged before IP counsel is even aware of the relationship!
- **Two key opportunities for improvement:**
 - [1]** Draft agreement assuming significant IP will be developed by *both* parties
 - Plan for the divorce: ensure you can change partners without fear of “arm-waiving” IP litigation
 - [2]** Have a plan for *actively* managing ownership of developed IP
 - Get involved in the *ongoing* relationship
 - Actively police self-serving “proprietary” assertions

Comprehensive IP Ownership Model

- **“Background” or Preexisting IP**
 - When embarking on a complex relationship, both parties bring their preexisting IP
 - Each party retains ownership of its background IP
 - ***Must consider whether a license to the other party is necessary*** for any Developed IP
- **“Foreground” or Developed IP**
 - ***Consider three ownership scenarios***
 - **[1]** Party A develops on its own, but pursuant to agreement
 - Typically Party A owns but Party B gets an irrevocable non-exclusive license
 - **[2]** Party B develops on its own, but pursuant to agreement
 - Typically Party B owns but Party A gets an irrevocable non-exclusive license
 - **[3]** Party A and Party B “jointly” develop
 - Option: pick an owner, the other gets an irrevocable non-exclusive license OR maintain joint ownership (not practical for registered/maintained IP)
 - ***Consider all forms of IP (and non-IP)***
 - Consider trade secrets, data, and software as well as conventional IP
 - Also consider **“contributions”** outside of “IP”
 - ***Include a mechanism for properly assigning IP as it is developed***
 - Could be an “automatic” assignment
 - Better to have a paper assignment to avoid disputes after relationship terminates

Sample Language for Preexisting and Developed IP

- **Preexisting IP:** The Parties will retain all right, title, interest in, and control over, their Intellectual Property *and contributions* existing before the Effective Date of this Agreement, *provided each Party can establish with contemporaneous written evidence possession of that Intellectual Property before the Effective date.*
- **Individually-Developed IP:** If one Party develops Intellectual Property during the term of, and within the scope of, this Agreement without contribution from the other Party, that one Party shall own the Intellectual Property and the other Party hereby receives a non-exclusive *and irrevocable* license to make, *have made*, sell, use, offer for sale, import and export that Intellectual Property.
- **Jointly-Developed IP:** If both Parties contribute to the development of Intellectual Property during the term of, and within the scope of, this Agreement, Party **A** shall own the jointly-developed Intellectual Property and Party **B** shall receive a non-exclusive *and irrevocable* license to make, *have made*, *purchase*, *license*, sell, use, offer for sale, import and export that jointly-developed Intellectual Property.
 - **Automatic Assignment:** Party **B** hereby assigns to Party **A**, Party **B's** ownership rights to such jointly-developed Intellectual Property. **Party B** shall execute all reasonable and necessary assignment documents to effectuate this ownership transfer to Party **A**. Failure to execute such assignment documents, however, shall not affect the automatic assignment of this provision.
- **Disclosure of Developed IP:** Each Party shall use its best efforts to seasonably disclose to the other Party, in writing, any individually or jointly developed Intellectual Property during the term of, and within the scope of, this Agreement.

Management of Developed IP

- **If the project is likely to result in Developed IP in an ongoing basis, consider having an IP attorney on the project team**
- **Set monthly or quarterly meetings to *discuss* and *document* IP ownership, license and assignment rights of Developed IP**
 - If the agreement is structured properly, this should not be acrimonious
 - Do ***not*** leave this task to the development or project management team
- **Far easier to identify and resolve IP disputes while the parties are working together than after the project is over**
 - Your project team will learn effective IP management along the way

Common Problem

- **Your “partner” often places its trademarks and boilerplate “proprietary” designations on documents including your IP**
 - “Proprietary and Confidential” headers and footers
 - Copyright notices
 - Boilerplate proprietary statements
 - Designations in the signature block of CAD drawings
- **Designations are often innocent, but inconsistent with true ownership**
 - Try to prohibit improper designations in the contract, but they are inevitable
- **Must be vigilant in resolving them *during the project*, they can be used against you**

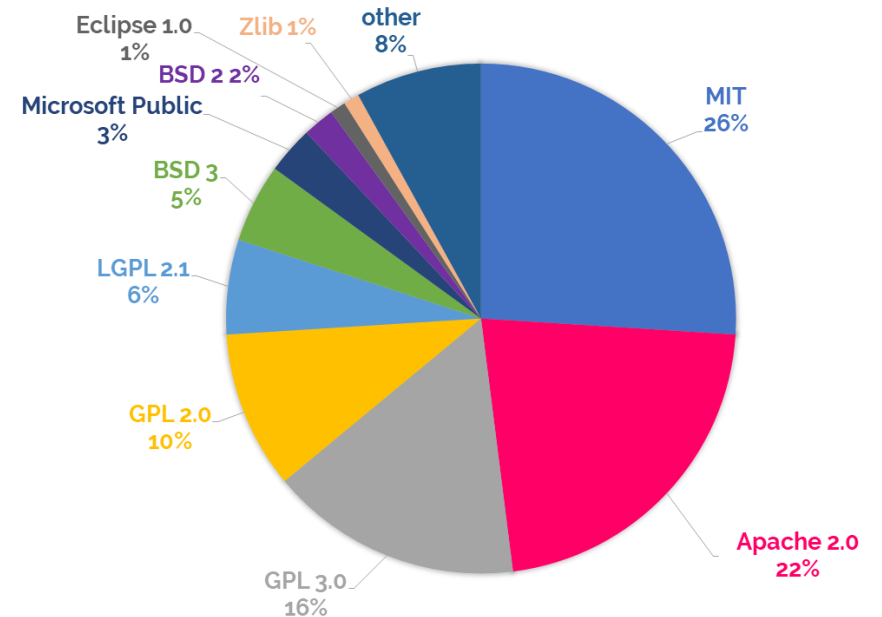
Sample Language for Proprietary Designations

Parties shall not place their proprietary designations on documents containing Intellectual Property and contributions of the other Party.

Such designations, if made, shall not impact the foregoing Intellectual Property ownership and license rights and obligations, or the parties' respective assignment obligations.

Open Source Software (“OSS”)

- If your project involves the purchase, license or development of any software, you need to consider OSS licensing
- OSS licenses carry obligations that all “distributors” must comply with
 - Providing notice of OSS usage
 - Making OSS source code and license documentation available
 - In some cases, **making portions your proprietary source code available**
 - Tracking changes to the distributed OSS
- OSS license obligations can vary greatly by license
- Failure to comply can give rise to copyright or contract claims



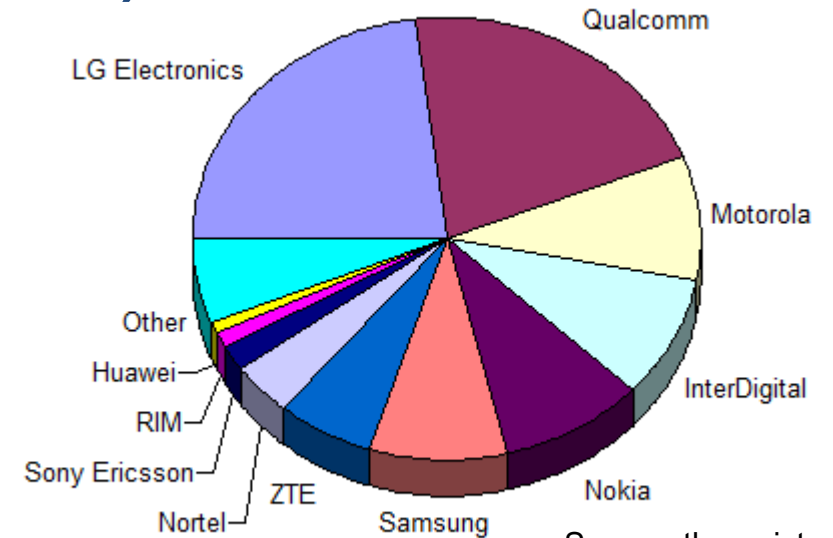
Source: Whitesourcesoftware.com

Managing Open Source Software (“OSS”)

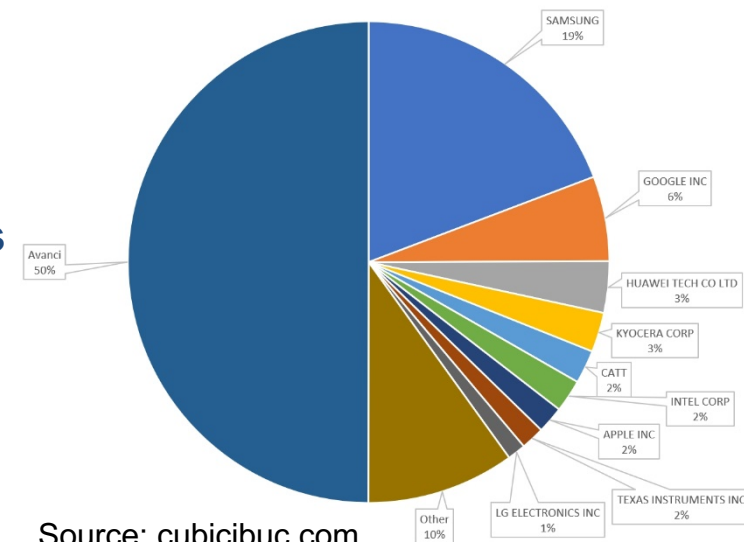
- **Many companies already have an OSS policy – find that first**
 - They vary remarkably
 - Some written for “internal” OSS usage, others for usage in the supply chain
- **Agreement/policy should identify which OSS licenses (if any) are permitted and which are prohibited**
 - Typical to permit: BSD 3-clause, MIT, Apache 2.0
 - Typical to prohibit: GPL v2, GPL v.3, LGPL v.3, AGPL
 - On the fence: LGPL 2.1
 - Require prior disclosure and approval before use of any *other* OSS
- **Both parties should have an OSS representative designated in the agreement**
- **Require disclosure of OSS and all information needed for compliance**
 - Varies by license
 - Timing will depend on the project
 - Require or perform an OSS audit (with enough time to resolve issues before distribution)

Standard Essential Patents (“SEPs”)

- Patents declared “essential” to practicing 5G, 4G/LTE and WiFi
- Owners must license on “Fair, Reasonable and Non-Discriminatory” (“FRAND”) terms
- **Problems:**
 - What is FRAND?
 - Who can take a license?
 - What is the correct revenue base?
 - How will paying one owner impact how much to pay other owners?
 - What happens if we can’t reach agreement on all of this?
- **License demands can be high**
 - 4G modem chipsets sell in the \$15-25 range
 - 4G license fee demands are currently in the \$15-20 dollar range
- **Patent owners typically will *not* license modem chip suppliers**
- **Chip suppliers typically do *not* indemnify their customers**



Source: theregister.co.uk



Source: cubicub.com

SEP Licensing in the Automotive Industry: Nokia Litigation

- **March:**
 - Daimler filed antitrust complaint against Nokia in the EU regarding Nokia's SEP licensing practices
- **April:**
 - Nokia filed 10 lawsuits against Daimler in Germany (seeking injunction)
 - *First trial mid-2020*
- **May:**
 - Continental (Daimler's supplier) filed lawsuit against Nokia *and Avanci* in NDCA
 - *Trial in Feb. 2022*
- **June:**
 - Continental requested anti-suit injunction against Nokia w.r.t. Daimler and Conti's other OEM customers
- **July:**
 - Nokia obtained *in Germany* an *anti-anti*-suit injunction against Conti's motion *in the U.S.*
- **September:**
 - Conti withdraws its June request for anti-suit injunction as to current Nokia patents (only)
- **Yesterday:**
 - Court denied Nokia's motion for anti-suit injunction *without prejudice* to refile.
- ***All cases currently proceeding on the merits.***

Wireless Licensing Generally: *FTC v. Qualcomm*

- **January 2017:**

- FTC sued Qualcomm in NDCA for antitrust violations
 - “No license, no chips” policy
 - Refuses to license its competitors.
 - “Extracted exclusivity from Apple in exchange for reduced patent royalties.”

- **May 2019 NDCA ruling (233 pages)**

- “Qualcomm's licensing practices have strangled competition in the CDMA and premium LTE modem chip markets for years, and harmed rivals, OEMs, and end consumers in the process”
- Specific Orders:
 - Qualcomm must not condition the supply of modem chips on a customer's patent license status and must negotiate or renegotiate license terms with customers in good faith under conditions free from the threat of lack of access to or discriminatory provision of modem chip supply or associated technical support or access to software.
 - Qualcomm must make exhaustive SEP licenses available to modem-chip suppliers on fair, reasonable and nondiscriminatory (“FRAND”) terms and submit, as necessary, to arbitral or judicial dispute resolution to determine such terms.
 - Qualcomm may not enter express or de facto exclusive dealing agreements for the supply of modem chips.
 - Qualcomm may not interfere with the ability of any customer to communicate with a government agency about a potential law enforcement or regulatory matter.
 - In order to ensure Qualcomm's compliance with the above remedies, the court orders Qualcomm to submit to compliance and monitoring procedures for a period of seven years. Specifically, Qualcomm shall report to the FTC on an annual basis Qualcomm's compliance with the above remedies ordered by the court.

- **August 23: Qualcomm’s Appeal Brief**

- FTC lacked sufficient evidence to sustain its antitrust claims
- Supreme Court precedent precludes liability: monopolists don’t have to do business with their competitors (absent an antitrust duty to do so)

- **August 30:**

- 9th Circuit granted stay pending appeal

- **September 10:**

- 9th Circuit set case for hearing in *January 2020*

Intellectual Property Indemnification

- **Development Agreements result in delivery of products and/or services**
 - Development Agreement could be subject to existing Master Service Agreement or Global Terms and Conditions
 - Indemnification issues arise relating to the delivered products and/or services
 - Standard broad IP indemnification protection
 - Narrower IP indemnification protection is not too broad
- **Striking balance between these two goals with clear contractual language**
- **Negotiations and clear drafting could avoid future litigation**
 - **Defense of indemnified claim**
 - **Issues on scope of indemnification responsibility**

Intellectual Property Indemnification

- **Broad IP indemnification:** Seller will indemnify, defend and hold harmless Purchaser arising out of any Claims against Seller relating to infringement or misappropriation of any intellectual property right relating to the delivered products and/or services.
- “Relating to” vs. “Arising under”
- “Products and/or services” definition

Intellectual Property Indemnification

- **Exceptions to the broad language to consider**
 - Products and/or services specifically designed in accordance with Buyer's specifications
 - Products and/or services modified by Buyer after delivered
 - Products and/or services combined with third party services, data, products, processes or materials
 - Buyer's use of products and/or services is not in accordance with Development Agreement
- **Reasons to resist exceptions**
 - Indemnification cannot be contingent on future facts
 - Broad indemnification is necessary for full protection (err on the side of broad scope)
- **Identifying and negotiating these exceptions important so the parties have clear understanding of scope going into the development process**

Intellectual Property Indemnification

- **Exceptions to the exceptions**

- Products and/or services specifically designed in accordance with Buyer's specifications where the alleged infringement or misappropriation requires the specifically designed products
- Products and/or services modified by Buyer after delivered where the alleged infringement requires the modification
- Products and/or services combined with third party services, data, products, processes or materials not reasonably foreseeable where the alleged infringement requires such combination
- Buyer's use of products and/or services is not in accordance with Development Agreement and is not foreseeable under the agreement

Non-Infringement Representations and Warranties

- Buyer expects broad non-infringement representations and warranties (R/W)
- **Broad non-infringement R/W:** Seller represents and warrants that products and/or services will not infringe any intellectual property rights of any third party
- Violation of this R/W typically triggers an indemnification obligation
- **Appropriately scoping the non-infringement R/W could avoid a litigation based on an indemnification obligation**

Non-Infringement Representations and Warranties

- **Exceptions similar to intellectual property indemnification exceptions**
 - Specifically designed products and/or services
 - Modified products and/or services
 - Products and/or services combined with third party materials
 - Use of products and/or services outside of scope of agreement
- **Be prepared to negotiate these exceptions based on the context of the Development Agreement**
- **Some exceptions may apply and others may not**

Non-Disclosure Agreements

- **Who can sign and who can edit?**

- Non-legal personnel (e.g., purchasing and engineering) may have right to sign
- May consider that this non-legal personnel does not have right to edit or accept edits
- May not understand impact of changes
 - Changes could add burdensome obligations (such as electronic destruction requirements)
 - Changes could remove meaningful protections (such as reduced scope of exceptions)
- Proposed edits should be approved by legal

- **Designate or do not designate**

- Is a disclosing party required to designate documents to maintain confidential status?
- May be difficult to maintain this obligation through life of project
- Not requiring designation could protect both parties
- Expressly stating that designations do not change IP ownership status

Non-Disclosure Agreements

- **One way or mutual**
 - Do not assume that a mutual NDA is necessary
 - A mutual NDA may put unnecessary burdens on a party
- **Maintain trade secret status**
 - Termination clause could endanger trade secret status
 - One of the requirements of trade secret is the information “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy”
 - NDAs could have the following termination language
 - This agreement and the obligations herein shall terminate one year from the date hereof.
 - Consider express language to confirm trade secret status
 - Notwithstanding, obligations regarding confidential information constituting trade secrets shall survive termination and expiration.
- **Precise drafting can avoid litigation defenses (especially in trade secret context)**

Covenants Not To Compete

- **Current trend towards broad covenants not to compete**
 - Often appear in IP sections of MSAs
 - Often not limited to the IP subject to the relationship
 - Could be violated the day of signing if supplier is supplying competitor
- **If a covenant not to compete is necessary, then work on an appropriate scope**
 - Duration (such as head start period)
 - Scope (such as limited to IP subject to the relationship)
- **Broad covenants not to compete increases litigation risk**

Questions?