Technology Transfer and Licensing

Today, many attorneys devote a significant portion of their practice to the protection and exploitation of rights in technology and other useful and creative endeavors. Once the province only of patent lawyers, this area of law has expanded to include a host of subjects under the broad designation, "intellectual property law."

One of my particular areas of interest is the licensing and transfer of technological innovations, particularly those that are computer-related, such as software. This article will discuss some of the issues involved in this area of the law with a particular emphasis on the protection and licensing of computer software.

A licensing and technology transfer involves the transfer of intellectual property rights in an invention or other creative or useful item, such as a computer program

by David R. Ellis

Rights That Can Be Transferred

When we talk about licensing and technology transfer, we are talking about the transfer of intellectual property rights in an invention or other creative or useful item such as a computer program. These rights generally fall into one of the following categories:

1. *Patents*: A patent is an exclusive right granted by the federal government in a new and useful invention or improvement. It gives the owner of the patent the right to exclude others from making, using or selling the patented invention for up to 17 years.[1]

2. *Trademarks*: A trademark is a right granted by either the federal or a state government to protect names, logos, slogans and other symbols that identify goods and services and distinguish them from those of others. It protects the trademark owner from others who might use the same or similar mark on their products and thus confuse or mislead the public.[2]

3. *Copyright*: A copyright protects original works of authorship such as writings, computer programs, photographs, records, tapes, and plays and movies. A copyright gives the author the exclusive right to reproduce, distribute, display and perform the work, prepare new works based on the original work, and authorize others to do the same.[3]

4. *Know-how*: Know-how consists of works, processes and information that are useful and valuable, but not protected under the above laws. It may consist of trade secrets, such as designs, processes, procedures, customer and supplier lists, and other proprietary information.[4] For example, the formula for Coca-Cola's syrup is a trade secret that has been kept confidential for decades.

Know-how may also consist of nonproprietary information that may be publicly known but is nonetheless useful and valuable to someone who does not know the information. So long as someone is willing to pay for the information, it may be licensed and transferred from one individual or entity to another.

Types of Transfers

There are two main ways to transfer technology and other valuable rights. One is the outright sales or assignment of the patent, trademark, copyright or know-how. In such a case the owner parts with all of his right, title and interest in the invention, work or information, and the new owner can use it as he sees fit, as well as protect it against others' unauthorized use.

Rights in a patent, trademark or copyright can be transferred either before or after it has been granted. In the case of a patent or copyright, however, neither the original owner nor the assignee may enforce his rights until the application has been granted. To confirm the transfer, the assignment should be recorded in the Patent and Trademark Office or Copyright Office in Washington, as appropriate.

A license, by contrast, is not an outright transfer, but only a grant of one or more of the owner's rights in the patent, trademark, copyright or know-how. In the case of a patent, for example, the holder may grant a license to make, use or sell his invention under the patent. In the case of a copyright, the author might grant the licensee the right to publish the work, or make copies, or distribute it to the public. A computer software license, for example, gives the user the right to use the program on one or more computers, make a backup copy, and perhaps modify and enhance the program. (For more on software licenses, see the last section of this article.)

The important point is that the owner of a patent, trademark, copyright or know-how owns a "bundle of rights," which he can divide up and grant as he desires. A patentee can grant one licensee the right to manufacture the invention, another to use it in his business, and a third to sell products incorporating the invention. These rights are normally granted in a written contract called a license agreement, which is the subject of negotiation and execution.

Types of Licenses

A license may be exclusive or nonexclusive. The owner of a patent, for example, may grant an exclusive license to a licensee, thereby transferring to the licensee the patent holder's right to exclude others from making, using or selling the invention in a particular area for a specified period.

The owner may instead grant a number of individuals nonexclusive licenses, with each licensee sharing with the other licensees the right to exploit the patent in a particular area. Normally an exclusive license is more valuable than a nonexclusive license. Thus, a potential licensee will often pay more for the assurance of knowing that he will have no direct competition for that product in a particular market during the term of the license.

A license is granted for a particular period of time. For example, a writer can grant publishing rights under a copyright for five years; a computer software developer can license a program for one or two years; or a patent holder can license his invention for the term of the patent. The maximum length of a patent is 17 years, so a patent license cannot extend beyond its expiration date.

Licenses also can be cancelled by the owner in the event the patent, trademark or copyright is misused or the licensee breaches the contract, such as failing to pay royalties. Some licenses include quotas, which enable the owner to terminate the license if the licensee does not make or sell a specified minimum. In some cases, a failure to meet that quota will transform an exclusive license to a nonexclusive, thus giving the owner the right to engage others to sell his product in addition to the original licensee.

Licenses can also be divided into territories or fields of use. One licensee may have exclusive rights in the Tampa Bay area, or Florida, or east of the Mississippi, or in the continental United States, or for all of North America. Similarly, licenses may be divided up among particular uses or industries. For example, one company may have the right to sell a prescription medicine only for human consumption, while another would have the right to sell only to the livestock industry.

Compensation and Royalties

The owner of a patent, trademark, copyright or know-how can be compensated in a number of ways. In the computer software area, for example, licenses usually call for a one-time license fee, sometimes with small renewal fees on an annual basis. Usually the fee is payable upon grant of the license, or sometimes in periodic installments, *e.g.*, annually or quarterly.

Another common method of compensation is the payment of royalties. Royalties are typically paid on a periodic basis. Often the royalties are based on the number of units produced or sold, and the licensee pays a fixed percentage of the manufacturing cost, selling price (either wholesale or retail), or gross or net profit.

Whether a royalty is paid on a sales revenue or gross or net profit may be very significant. Total sales are reported to the Internal Revenue Service and can rarely be tampered with by the licensee. Profits, on the other hand, are more subject to manipulation because of the way costs of goods sold are included in their calculation.

Royalties may be paid annually, quarterly, monthly or on any other basis that the parties agree on. In order to determine the accuracy of the royalties remitted, the licensor should insist on the right to inspect, and audit if necessary, the licensee's books to ensure that all amounts earned are properly accounted for.

Another method of compensating the owner of a patent or other right is through an exchange of technology. If two parties each have rights that the other wants, they may enter into a cross-licensing agreement in which each grants the other the right to use his technology. This may be accomplished without any money changing hands, or might include the payment of reduced royalties by one party to the other to reflect the relative value of the rights transferred by each party.

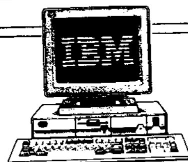
Other Concerns

A written license agreement sets the conditions of the license of a patent or other proprietary right, including such matters as exclusivity, term, territory, quotas, and royalties. The license agreement may or may not allow the licensee to assign his rights or sublicense the technology to others. A sublicense is the transfer by the licensee of all or part of his rights under the main license.

Other areas of concern include government regulation of technology transfer. Under the federal antitrust laws, for example, there may be certain limits on how a licensor can restrict competition in a given market through exclusive contracts.

Other federal laws may also be pertinent. For example, although a prescription drug may be patented, it cannot be sold in this country until it receives Food and Drug Administration approval after extensive testing on animal and human subjects.

State laws also have to be considered. In Louisiana and Illinois, for example, laws were enacted affecting the enforceability of shrink-wrap licenses for computer software (the Louisiana law was later held to be invalid[5] and the Illinois law was repealed). In the international arena, there are also a number of areas of concern, such as trade restrictions that bar the transfer of certain



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high-technology products and information to countries such as the Soviet Union and Eastern Bloc nations, Vietnam and North Korea, and South Africa. Computer and defense related technology are high on the list of these restricted items.

Computer Software

One area of technology transfer and licensing that has become important and familiar in recent years is software licensing. When software is transferred from developer-owner to customer-user, it is normally licensed, not sold. This is because computer software carries with it a variety of intellectual property rights, spanning the spectrum from copyrights to trade secrets, trademarks and sometimes patents, which are important for the owner to protect and preserve.[6]

A software license is an agreement under which the owner-licensor grants the user-licensee a limited right to use the software in accordance with terms and conditions set by the owner and agreed to by the user, either expressly or by implication.

The user who signs a software license agreement expressly agrees to the terms and conditions established by the vendor. The customer who buys a shrink-wrapped package in a computer store agrees to the license by an act when he opens the package and begins using the software.

In a typical mass-marketed software license agreement, the licensor grants the user the right to run the software on one computer at a time on a nonexclusive and nontransferrable basis. In exchange for the grant, the user agrees to pay the licensor a one-time license fee.

Many software licenses restrict the licensee to using the software on only one computer (sometimes called a central processing unit, or CPU) specifically designated in the agreement by model number and serial number. If the user is so restricted, he is usually allowed the limited right to transfer the software temporarily to another unit in the event the designated unit becomes inoperable, until the designated unit is up and running again.

If the user wants to run the software on more than one CPU at a time, he has two possible choices. He may separately license another copy or copies of the software (usually at a discount) to run on his second and subsequent units. Or he can enter into a "site license," under which he is authorized to run the software on as many units as he has at a single location, normally at a higher license fee than if he were limited to a single designated CPU.

The license fee for software may be structured in various ways. For standard off-the-shelf programs, the license fee usually consists of a one-time payment which allows perpetual use of the software. For other programs, particularly those requiring updates, like tax programs, the licensee fee may be valid for only a limited period such as one or two years with annual renewals available from the licensor thereafter.

Usually, the license fee will cover only initial error correction, and assistance and maintenance support for a limited period of time, such as 90 days, six months or a year. Thereafter, extended support may be available from the licensor on a contract basis for an annual fee, or on a noncontract basis at time and material charges. Support contracts usually provide the user with telephone assistance and standard updates and enhancements. Sometimes there are additional charges imposed to cover the cost of handling, shipping and the media on which the programs are copied.

Since software is a valuable trade secret of the licensor, the user is required to keep it confidential and not to disclose it to any outside parties. Usually, the user is given the limited right to make one or two copies for backup or archival purposes in the event the original copy is damaged, but not to transfer or disclose the software to anyone outside his organization. He may also be restricted from "reverse engineering" the software by decompiling it or otherwise learning the trade secrets embedded in the program. Upon expiration or termination of the license, the user must return or destroy all copies of the software.

Most software license agreements also make it clear that the license is granted only the right to use the software and not an ownership interest in the programs. All right, title and interest in the software remain with the licensor. The user does not have the right to transfer, assign or sublicense the software without the express written consent of the licensor.

Typically, if the user breaches any of the terms of the license, the licensor may terminate the agreement. Upon termination, all rights of the user with respect to the software immediately cease, and he is required to return or destroy the original and all copies of the software to which he has access.

The typical software agreement also provides that the owner may sue the user to enforce his rights in the event of default. In such event, the owner may seek an injunction to prevent continued breach. He may also seek money damages to compensate for any losses he may suffer by virtue of the user's default, plus costs and attorneys' fees incurred in enforcing his claim.

Technology transfer and licensing have become increasingly important to attorneys practicing on a local, national and international basis. Those who are involved in this growing area of the law should seek a better understanding of the legal ramifications in order to protect fully their clients' interests in the underlying ideas and innovations under development.□

[1] Patent Act of 1952, *as amended,* 17 U.S.C. §1.

[2] Trademark Act of 1946 (Lanham Act), *as amended,* 15 U.S.C. §1051; Florida Trademark Act, *as amended,* FLA. STAT. Ch. 495.

[3] Copyright Act of 1976, *as amended,* 17 U.S.C. §101.

[4] *See, e.g.,* The Florida Uniform Trade Secrets Act, FLA. STAT. Ch. 688; also The Florida Theft of Trade Secrets statute, FLA. STAT. §812.081.

[5] Vault Corp. v. Quaid Software Ltd., 655 F.Supp. 750 (E.D. La. 1987), *affd,* 847 F.2d 255 (5th Cir. 1988).

[6] *See* Ellis, *Computer Law — A Primer on the Law of Software Protection,* 60 FLA. BAR J. 81 (April 1986). For more on software protection (and computer law generally), *see* ELLIS, A COMPUTER PRIMER pp. 51-93 (1986).

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This column is submitted on behalf of the Computer Law Committee, Harry Barron, chairman, and Steven DePre, assistant editor of the Newsletter & Publications Subcommittee.

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