

Overview Of Licensing Negotiation

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German review applies generally; both parties must fully understand terms and all details

At the end of the discussions and negotiations between a prospective licensee and a licensor of technology stands the drafting of the license agreement. Even if parties do understand the importance of such a document and its legal implications, it happens that after closing of the agreement the parties find out that they have left open items that should have been agreed upon or misunderstood what they actually agreed upon. Examples for that are familiar to everyone involved in licensing. The question arises what means do exist for both parties to make sure they understand exactly what they agree to when it comes to granting a license.

The following presentation tries to address that problem and to offer some ideas for both parties to the license agreement.

WHAT IS BEING LICENSED; ISSUES

For the various issues discussed, this paper follows a standard pattern for each issue: First it will be looked into (a) what happens if nothing is said at all in the license on this item, (b) if there are ambiguous terms used for the issue that should be agreed upon, (c) it shall be explored whether there are legal limitations that apply to this specific item, and (d) some tips shall be given for the wording and what should be looked into when dealing with that issue.

Territory

Even if the parties to a license do not think about the territory for which they want to grant the license

they at least deal with what they want to license at all. So one usually finds at least words used like "patent(s)," "invention," "technology" to which the license shall extend to. If specific patents are listed it is of course easy to find the solution that the respective countries in which the patents are granted shall define the territory. When one talks only about an invention or only about a certain technology without defining the territory it is a good idea to assume that all patents existing at the time that the license agreement is entered into covering that invention or that technology with their respective countries shall define the territory.

If the wording is ambiguous, as with all ambiguous language in contracts it is necessary to construe the agreement in its entirety and to determine what the parties actually agreed upon. Any broad language (like technology or countries) will be to the detriment of the licensor because this might be construed broadly. Any vague language, however, might be to the detriment of the licensee not providing for the rights that the licensee actually wants to get. If the licensor is the owner of parallel patents, the licensee will, at least outside of the European Community, only get the right to the specific patent that one can find as subject matter of the license. Within the European Community the situation is different under the doctrine of exhaustion, which will entitle the licensee basically (leave aside the restrictions that the parties rightfully may agree on under European Antitrust Law) to deliver the goods produced under the licensed patent into other European member states.

Basically, no legal limitations exist when it comes to the grant of the territory with the one exception that

no splitting up of markets by the licensor may be the result of licensing. So any countries can be made subject of the license grant but also parts of such countries ("the south of France") can be agreed upon as territory.

Once again, the doctrine of exhaustion will be mentioned. The licensee being located within one of the European member states and receiving the right to the territory of one of such member states will not only be entitled to distribute goods produced under the patent, but this will also lead to the result that the respective goods that are produced by the licensee exhaust the patent. This means that those goods thereafter may freely circulate throughout the European Community with the licensor unable to stop this circulation. A parallel patent within the United Kingdom, for example, may not be used by the licensor to hinder the importation of the products produced within France under the license.

◀ Two Concepts ▶

When it comes to dealing with the concept of territory, parties should do two things. First, they should always work with clear and concise definitions to circumscribe the territory. Here it is mandatory to use the correct legal terms for the territory. Do not talk about "England" when you mean the United Kingdom — but even with those clear definitions it will always come as a surprise if and when countries unify, as the example of Germany shows.

Second, parties should also use annexes to list the intellectual prop-

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erty rights and the territories in which those intellectual property rights exist to avoid any doubt as to what the license shall extend to when it comes to the territory. In that respect it is mandatory to be as specific as possible to define the rights in the territories. Language as "the patents as listed in Annex A for the respective countries set forth in Annex A" or "the technology for use in . . . including all patents existing, applied for or to be applied for" do of course help the parties to more clearly define what they actually want to agree upon.

Scope: Exclusivity

If nothing is said in a patent license agreement at all the license granted will only be a nonexclusive license. At least under German law, this is the immediate result of the application of Section 34 of the German Antitrust Statute (*Gesetz gegen Wettbewerbsbeschränkungen*) which sets forth that any competition restraining clauses have to be in writing. As the grant of an exclusive license is competition restraining in so far as it keeps out of the territory all the other prospective licensees, such an understanding has to be made in writing. Accordingly, if nothing is said in the agreement the grant will always only be nonexclusive.

If ambiguous terms are used, the contract again must be construed. It is important to note that Section 34 GWB does not hinder construction of agreements. Such construction could, however, be to the detriment of both parties. This is true if a court finds that the understanding reached between the parties is not documented in the agreement and finds the whole agreement invalid because of lack of writing.

With respect to exclusivity, anti-trust law always has accepted that exclusivity can be agreed upon between the parties, may it be only for a certain part of the territory.

Language to avoid any doubt between the partners should spell out that an "exclusive" license is granted for a clearly defined territory, or that a "sole" license is granted (entitling only one licensee with licensor's right to make use) or

that a "nonexclusive" license is granted.

Scope: What rights

Under the topic of rights it has to be considered what parts of a patent are licensed, whether only the product, also a process to produce such product, or maybe both are covered by the license. Also, what rights under the patent are licensed, whether the licensee shall be entitled to manufacture, offer, put on the market, use, import and/or export the products covered by the patent.

If nothing is said in the agreement but only a grant of a license as to the "patent" is provided for, this will be construed by a court as giving the full scope of rights to the licensee, which means that the licensee will be entitled to exercise all rights of the patent regarding all parts of the patent.

The same will be true if there is ambiguous language used. A construction of the contract in that respect may be to the detriment of the licensor, as courts will find that a licensee shall get all the rights it needs to conduct its business under the license.

◀ Legal Limitations ▶

Legal limitations set some restrictions as to the issue of how far one can split up the rights under a patent when it comes to the grant of a license. It is possible to give a licensee only rights to parts of the patent or parts of the invention (product, process, or even specific claims only). It is also admissible to provide for a license for specific rights under the patent only, i.e. the right to manufacture the product, or the right to distribute/put on the market, or the right only to use the patent. It is important again at that point to keep in mind the doctrine of exhaustion developed by the European Court of Justice, which forbids any further restrictions if a product has already been put on the market by a manufacturing licensee and is then circulating in the market. The licensor may not control this circulation after the licensee manufacturing the product with the right to put the product on

the market has lawfully done so.

Language can in this respect make sure that both know exactly what they are talking about. One should, if possible, use the legal terms as they are used in the respective patent acts to bring with the contract language the application of such decisions dealing with those terms, something that would also avoid further definitions. If terms are used that cannot be found in the respective patent act under which the patent was granted or which law is ruling the contract, one should then be specific in defining what is meant by the term used. It is mandatory to provide for a connection between the rights granted and the territory for which those rights shall be granted.

Type of license

It is necessary to make clear what type of license shall be granted. Shall it be a mere patent license, or a patent/know-how license or also a license involving further intellectual property rights, for example trademarks.

If nothing is said in the agreement the licensee will have a tough time showing that it was not only granted a patent license (if we assume that at least a list of patents was annexed) but also a trademark or know-how license. Usually, the licensor will prevail with the argument that it only wanted to grant the license as it is set forth in the contract.

Ambiguous language may be to the detriment of both, as none of the parties will get more than they actually put in the contract or which can be construed from the contract. More often than not, however, it will be the licensee who will lose.

The applicable Block Exemption Regulations both for patent and know-how licenses allow any combination between patent and know-how and also allow any further involvement of intellectual property rights, like trademarks, trade dresses (get ups) and the like.

The language that should be used should make very clear what the parties want to cover. Especially, if they do not only want to enter into a mere patent license but want to extend this license to further know-

how, the parties should be very specific and clear as to the type of know-how they think about. By what means shall it be passed over to the licensee? How may the licensee use it, keep it secret, and so on. It is mandatory (not only under the applicable Block Exemption Regulation 565/89) to clearly define the secret know-how and work with annexes or references to any documents that comprise the know-how.

Engineering Assistance and Training

It is not unusual that also in connection with patent licenses, parties include engineering assistance in favor of the licensee.

If nothing is set forth in the agreement the licensee will get neither training nor engineering assistance but will be entirely on its own when it comes to exercise the patents. There is also no construction possible that would oblige a licensor to provide for training when it comes to exercise the technology that is licensed under a mere patent license.

Ambiguous terms may help the licensee to a certain extent in obtaining engineering assistance, and courts may find that a certain language used actually provides for the obligation of a licensor to help in the exploitation of the licensed patents. However, bringing a court case with the request for engineering assistance if there is only ambiguous language will, nevertheless, be a difficult exercise for the licensee.

There are no limitations from the legal side, especially from the antitrust side, when it comes to providing engineering assistance and training.

When talking about engineering assistance or training in a license agreement, it has to be set forth who shall be entitled to what, especially whether it shall be only the licensee or any subsidiaries of the licensee or even customers of the licensee who shall be entitled to help in exercising and exploiting the technology licensed by the licensor. Further, it is mandatory to set forth where this training and engineering assistance shall take place, whether it shall be on the site

of the licensor or on the site of the licensee or, maybe in construction relationships, also on the site of a customer. In addition, one should always think about preparation of documents, how many hours will be spent, the profile of the people who will provide engineering assistance, language skills, any interpreters who should be involved, whether customers will be entitled to visit the facilities of the licensor and, for all of the above, who shall bear what fraction of costs of the engineering assistance.

Improvements

It is commonplace that the parties to a license agreement do not only think about the technology that exists and is covered by the license agreement, but they try to make up their minds about what will happen with the technology that accrues because the licensor and licensee exercise the technology and improve it while going along.

If nothing is provided for in the agreement nothing will actually happen. No party will be obliged to pass on any of its own improvements based on the exercise and exploitation of the technology.

The use of ambiguous terms may invite a court to find a certain obligation on a party to pass on improvements, but this obligation might be very small.

There is an important legal limitation that is imposed upon by the applicable Block Exemption Regulations, which require the parties not to agree on any exclusive grant-back clauses. It is not permitted to oblige the licensee to pass on improvements on an exclusive basis to the licensor. It would bind the parties together and hinder competition by the licensee in the future.

It should be defined what "improvements" are. More often than not the parties will start to discuss whether something is a real improvement of the technology licensed or whether it is a totally new technology that is not covered at all by the license agreement. This tendency to "discuss away" the application of an improvement clause, when a new and valuable technology is found, is in the interest of the respective side that

developed the technology. It might be worthwhile even, in defining the term improvement, to use the wording set forth in the Block Exemption Regulations, which covers any experience gained in exploiting the licensed technology. A broad definition could cover more or less whatever the licensor or licensee gains while exercising the technology. If one wants to be more restrictive one should talk only about "new applications" of the technology, or, even more closely defined, those new applications that will be patented. As discussions about improvements usually have as a background the issue that none of the parties finds it attractive to pass on new technology without any further remuneration, it might help the understanding and the workability of such clauses if the parties do talk about costs and are willing to provide for extra money for improvements. It is the experience that both sides are more willing to pass on improvements if they do not have to do this for free under the existing agreement.

Duration

In talking about duration of a patent license one does not only have to think about the term of such license but also of any termination rights given to either side. Termination rights are found to be linked with substantive obligations of the parties, like exploitation of the patent, providing for a certain minimum turnover, or minimum royalty, or the like. This can lead to the result that all of a sudden one is talking about very far reaching issues and concepts that are linked to the innocent looking paragraph "term and termination."

If nothing is said in a patent license courts will find that the license will have the term that coincides with the longest running patent. For a know-how license, this means that the license will be in existence for as long as the know-how is still secret.

Ambiguous language should — if one properly construes the language — lead to the same result, meaning that in case of doubt the term of the patent license should be as long as the longest running

patent:

There are legal limitations that have to be kept in mind when talking about the term. First, for patents the Block Exemption Regulation 2349/84 forbids clauses that lead to an automatic prolongation, Article 3 No. 2 of the Block Exemption Regulation, if no termination right annually is provided for the benefit of the licensee. Rationale of this is that it shall not be possible to provide for an indefinite term of a patent license by incorporating again and again new patents.

With respect to know-how, the limitation is self explanatory: The license expires if and when the know-how becomes publicly known. If additional know-how is inserted again and again the licensee will also have a termination right every three years under Article 3 No. 10 of the Block Exemption Regulation 556/89. It should also be noted at this point that the term of the know-how license may have to be split up because some of the restrictive clauses may run for 10 years while others may only run for five years, Article 1 (2) of the Block Exemption Regulation.

As this comes as no surprise, again the parties should be as specific and as clear as possible when talking about the term of the license. It should be phrased that the term of the license will run "as long as the longest running patent is in existence" and that the know-how license will have a term that coincides with the secrecy of the know-how. If and when the know-how becomes publicly known any further restriction on the licensee is forbidden, Article 3 Number 5 Block Exemption Regulation.

If the parties want to agree only on a limited term under a patent license they should also clearly define what that term should be. Any renewals of the license may then be automatic or linked to a certain behavior of the parties, which also must be defined. Lastly, one has to pay extra attention to termination rights, their prerequisites and very important, to the effect of termination. This requires that one looks carefully into such clauses, which will remain applicable after termination. The parties should

also spend time defining what rights will entitle either side to a termination without notice.

HOW TO MAKE SURE BOTH UNDERSTAND WHAT IS BEING LICENSED

Three Ways to Make Sure: Time, Time and Time

Although licensing is only a "sideline business" for most companies, as technology is developed for their own operations and only licensed on a selective (if not random) basis, one should spend considerable time preparing and negotiating a license.

Time in preparing negotiations. For a licensor it is very important to get a clear picture of its own business strategy before the licensor starts out in the business of licensing. One has to have an awareness of the basic principles of licensing. It is mandatory to determine the crucial issues one wants to offer in a license negotiation. A licensor should always have its own package ready before it enters into any license negotiations, which means that there should not only be an outline of the proposal of the license relationship. But there should also be documentation as to the technology that is involved and as to the benefit this technology will bring to licensee. There should also be a basic understanding what contract shall be offered.

For a licensee it is important to be clear about their own expectations before entering into discussions about licensing.

In doing so, both should put together their best negotiation team. In preparing negotiations, experts have to be included with research, manufacturing, financial, marketing and legal expertise to make sure that nothing is overlooked in preparation. It is mandatory to include all of those experts in preparation of the negotiations but to select only a very few for the actual negotiation team. Nevertheless, all of the experts just mentioned should always be only a call away when sitting down at the table for negotiations.

Time in checking technology. For the licensor this means to make

up its mind what shall be licensed out, what patents, what parts of technology, what operating know-how, and so on. Furthermore, it should be decided whether technical assistance and training can be offered as well, to make the exploitation of the technology more effective for the licensee. The overall theme for checking is the crucial question what the licensor actually wants to disclose to its licensee (which means to a certain extent to its competition). One has to keep in mind in that respect that all the applicable competition rules have the ultimate goal that the licensee shall become a competitor to the licensor. It may be only after a long term — after the patents have expired and all the know-how has ceased to be secret.

For the licensee the checking of technology means to do a due diligence exercise, like one would do if it were for an acquisition.

Time in negotiating and drafting. Maybe most important is that part of time allocation. The licensor should meet the licensee before it actually presents its package at least once to make sure there is a meeting of minds. It is always coming close to a disaster if the package is on the table, with access of the other party to the technology, when it is then found out that the licensor and licensee do not get along with each other at all. The time that is set aside for negotiation and drafting will also help to cope with different negotiation styles that can be found around the world. Last, it is almost too plain to state, but even if one has set its own deadline one should never show to the other side that one is under time pressure.

For both sides considerable time should be spent for the drafting of the license agreements. It is at least under my point of view preferable always to "start from scratch." This provides for the opportunity to think fresh about issues and to make up one's mind what actually is wanted and how this shall be achieved.

An empty sheet of paper that has to be filled with the essential items of a license will help much more than pulling out a standard agreement or using the draft of the last

negotiations. The use of standard agreements as a starting point should be avoided whenever possible. After one has put everything together in a draft, however, one should always come back to the standards one has on file and check whether something has been forgotten.

Letter of Intent/Memorandum of Understanding as Means to Prepare for Time Allocation

After having said that time is of crucial importance in getting together a license it has to be added that there is one contractual vehicle that provides for the peace of mind and the necessary time needed: a letter of intent or memorandum of understanding with a strong secrecy clause.

If a party wants to limit the term of a letter of intent or memorandum of understanding (which limit never must be applied to the secrecy obligation) this party should be sure that they can live up to the time limitation. It is more than embarrassing to later find that the party who was tough in imposing a time limit must ask for an extension.

The letter with such a strong secrecy clause will be a perfect means to gain commitment from both sides who will have to invest time and money in future negotiations.

Due Diligence of Technology

For the licensee it is mandatory to do a due diligence check of the technology that is licensed. As in acquisition contexts, the licensing of technology is a transaction for which it is necessary that the parties are sure what technology they talk about is sold (licensor) or acquired (licensee).

A licensee should require from its licensor full disclosure of the technology, which comprises a list of the patents and patent applications broken down by countries. It should be accompanied by copies of the patents and applications to check the owners of those rights.

The common negotiation line "the annexes will come later" should never be accepted by a licensee. Some of the terms in the agreement might not make sense as

soon as the licensee knows how the annexes look. A licensee has to ask about oppositions, cancellation actions, and infringement claims. It should take time to talk to the technical people of the licensor to find out what is needed to exploit the technology that will be made part of the license.

It may come to the surprise of a licensee that a separate patent is needed or that it is mandatory to obtain engineering assistance and training to exploit the technology. If there are other licenses already existing the prospective licensee should be entitled to talk to them to find out what actually is needed for exploiting the technology.

If engineering assistance is part of the game the licensee should talk to key people who will provide this engineering assistance to find out whether the technology will work.

To sum up, a preacquisition due diligence by the licensee is necessary to check what technology is provided and how it will fit the business of licensee.

Clear Contract Language

What do courts expect? In general, it can be said in a very easy manner that courts expect, when they look into a license agreement to determine what rights either party has, a complete agreement on the content of the contractual relationship. What the parties want to accomplish with the contract has to be in the contract.

That of course is very easy with hindsight but difficult to define beforehand. However, if the parties come to the negotiation table with the necessary preparation they will know exactly what they want. It is that knowledge that will help them define and agree on the content of the contract.

Nevertheless, one will always find out that something was forgotten and this is when courts come in to help in construing the language of a license.

The worst: Vague language. As soon as courts come in to define and construe a license the worst happens to the parties: lawyers come in to take charge of the business relationship. Even worse, they may be lawyers not selected by the

parties and who are not controlled by the parties. Judges in construing license agreements may find surprising results. So it has to be avoided by all means that someone other than the parties is construing and writing a license agreement. It should be in the utmost interest of the parties to always be there first, address the issues first, define what they want, and word such items clearly.

Clear Language From Side of Licensor

Limitations. Again, the advice is to spell out in a clear fashion when a licensor sees a limitation that he wants to have imposed on the licensee. It should never be the approach to be quiet and hope that the other side is not asking for the item that the licensor does not want to pass on to the licensee or does not want to provide for in benefit of the licensee.

Courts might come later and construe this silence to the disadvantage of a licensor. From the antitrust side it has to be noticed that restrictions always have to be consistent with the subject matter of intellectual property rights. If not, those limitations may be and will be regarded as mere restrictions of competition, which more often than not can be found in the so-called black lists of the Block Exemption Regulations on EC level.

Exclusions. Everything in connection with the licensed technology that a licensee might expect or reasonably can expect, but that the licensor does not want to pass on or provide, should be excluded. This is especially true with respect to engineering assistance, training and improvement.

No-obligation clauses. If a reasonable party could assume that obligations exist on side of a licensor such licensor has to put into the patent license a "no-obligation clause" to avoid the licensee from expecting or a court imposing on the licensor a certain obligation. This covers improvements, engineering assistance, training, assistance in defending intellectual property rights, coverage of costs, and so on.

Clear Language From Side of Licensee

It is the intent and the goal of a

licensee to provide for language as to all the obligations that a licensee wants to see fulfilled on side of licensor.

Inclusions. To that effect, the licensee should include in clear and nonambiguous terms what licensee wants to get under the license deal. This includes improvements, engineering assistance, training, help defending patents, any new technology that might be the subject of further negotiations (if it is not already covered by improvements) and so on.

List of warranties. The list of warranties on the side of the licensee more often than not is part of a "wishful thinking" exercise under which a licensee is expecting and hoping for a long list of warranties, to be assured and safeguarded against the risks coming with the licensed technology. Such lists are not easily accepted by a licensor who does not want to act as an insurer when it comes to the risky business of technology transfer.

Warranties that can be part of such a list extend to the issue of patentability, merchantability (including that the technology is fit for manufacture or at least that the licensor does not know that the technology is not fit for the purposes intended), assurances as to the legal situation (that the patent is not dependent, that no consent of a third party is necessary), the obligation of licensor to maintain the patent during the term of the license, defense against any infringer, reimbursement of costs in that respect, a hold-harmless clause if a third-party attack is launched, and, at the far end, that the technology can be exploited in a profitable manner.

List of representations. Even within the same paragraph and in the same list, representations may be made by the licensor. Leave aside the usual representations that parties may ask for in connection with a contract (power to enter into the contract, fulfillment of all internal prerequisites to do so, and so on), the representations provided for in connection with a patent license can extend to the fact that the patents are actually held by the licensor, that the patents are valid

and have been maintained, that the licensor has full power to contract over the technology and that there are no legal or technical defects. The lists of warranties and representations are basically endless. It is always up to negotiation between the parties who will succeed with the request to either have a full-blown list of such warranties or representations or whether they flatly will be denied.

For the Benefit of Both

Whereas so far it could be distinguished between licensor and licensee, and the notion was that it is up to the negotiation skills and the position in the negotiation deal who actually will prevail with its requests, the following should always be considered by the parties. They benefit both partners to the agreement.

Clear definitions. It has been said throughout that the parties should always try to define what they actually agreed upon. It is standard practice to put such terms in definitions, which are used throughout the agreement. Such terms should be defined thoroughly and, most important, should be used consistently throughout the agreement. It is more than disturbing if throughout one document for the same idea different terms are used. Courts will always tend to interpret this as to different meanings of such terms: Why should the parties use different terms for the same idea if they do not mean different things in doing so?

Any doubt in definition should be avoided. It is to the advantage of both partners if they take time and think twice about terms to be used. Further, the parties should always use the correct legal language to draw upon the vast body of case law developed for these legal terms, especially if the parties do not want to cover every single item that might be helpful in connection with a certain term. If both parties agree that a certain term is used in the sense it is also used in a statute then the parties should not try to define the term to avoid wrongly expressing the understanding. That could mislead anyone later when construing the agreement. For the benefit

of the understanding reached, the partner should make a note in a memo which is kept by the parties and which can be used later (if local law permits) to construe the agreement.

Work with annexes. The parties should use annexes to more clearly spell out what is defined in definitions.

Again, the parties should spend time in preparing such annexes. Unfortunately, it is going practice in negotiations for parties not to prepare annexes in advance but usually keep them for later. It is commonly said that the annexes "will be ready upon signing."

Annexes should be prepared on time. For example, the annex listing the licensed patents should not just give the patent numbers in any consecutive order. It should group such patents to find out whether the parties have actually thought through the annex, for example, grouped by countries, technology or whatever logic grouping might be applicable.

If know-how is licensed annexes should describe this know-how in the form and manner required by the European Commission in the Block Exemption Regulation No. 556/89, or at least contain a reference to the document in which the know-how is more clearly defined.

Address problems. It is always the worst advice parties can follow to not address problems that they foresee in connection with the license deal. The approach that "they have not seen this yet, or they do not understand this fully" should be banned from the negotiation table.

If one of the parties wants to reserve its own position it should always tell the contract partner that it is doing so. If you cannot trust your partner at that stage of the negotiations, and if you cannot spell out clearly what your expectations and what your reservations are, how could you assume that you can build trust later on and trust your partner when you have a working relationship regarding the technology. One should never assume that the other party is seeing the problem the same way or is

also understanding that if a certain item is not addressed this means that there exists a clear reservation of that problem. It is also time well spent if one sits back for a moment and tries to think about the future and the likely development of the deal.

Discuss Ideas Openly. All the above leads to the conclusion that the parties always should openly discuss ideas they have about the deal. This is not only necessary to provide for a good license document and to deal with the issues that could come up, but it is also mandatory to establish a feeling of mutual trust.

With respect to definitions, it should be reiterated that a discussion of ideas does not have to cover any single point, ever so remote that might become interesting one day. One should define what seems to be important, at the time of entering into the agreement and, even more important, what is disputed. This requires, however, that one makes up his or her own mind and discusses with the partner any items that seem to be important or disputable. From time to time it makes sense in negotiations to go through various scenarios with the partner (what happens if, what happens next, what do you do when). However, we have to face the fact that one can do one's best and still be surprised that both parties overlooked something very important, which with hindsight seems to be plain and simple and impossible to overlook.

Money and Time Spent Before a License Is Signed Is Well Spent

It is clear that one has to invest a lot of time in preparations, checking technology, and negotiation and drafting. But this time (and of course money) spent is well spent. It avoids renegotiations and outside legal fees for legal opinions later. It avoids interruptions in exploitation activities. Disputes that arise later on may result in a loss of the working relationship between the partners.

The bottom line is that one is not "buying" something in a "hit-and-run" deal. One is actually "marrying." The partners will start after

the signing of the contract to work together. They will have to "live" together, so it is better to talk about the deal beforehand. It is always better to have one more meeting in which remaining items are discussed than to accept a remaining ambiguity. That ambiguity might have been solved by that last meeting.

Work With General Clauses?

General clauses should only be applied if it is really necessary. The licensee should always stay away from general clauses if general clauses are only applied in the hope to get more out of the deal than the licensor understands. This will never work to the advantage of a licensee. Especially regarding applicable antitrust statutes, courts will later more likely than not tell this licensee that it did not obtain what it thought it obtained while using a general clause. Courts, moreover, may always find that because of ambiguity and general clauses used the parties did not agree at all on the item that is concerned.

RESULT OF AMBIGUITY

If the approach fails to deal with the issue before it comes up and to find for a reasonable solution that can be accepted by both parties to the deal, we have to face the question

What happens if the license contains ambiguous language dealing with an issue in question between the parties. This question can only be answered from case law in the parties' jurisdiction of that specified in the agreement.

The following short overview is given from German law, which may or may not apply in comparable ways to the jurisdiction that governs the respective patent license.

Antitrust Law: § 34 GWB

As was said above, under German antitrust law it is required that any and all restrictive clauses have to be in writing. If an ambiguity in a license agreement results in a "lack of written form," courts will find that no restrictive clauses are present and that the parties have

not agreed on such restriction. In connection with any know-how, this may result in the loss of the technology. For a mere patent license the situation is better as the licensor in such a case at least retains its patent rights.

Open or Hidden Misunderstanding (Dissent)

Section 154 of the German Civil Code as well as Section 155 of the German Civil Code deal with a situation in which the parties have not agreed on all items of a contract for which just by declaration of one of the parties an agreement had to be obtained. In case of doubt, no contract will have been concluded between the parties, if this happens.

If one of the partners, accordingly, made clear that there is something to talk about, which is not in the contract, there is a strong assumption that no contract has been concluded. With respect to a hidden misunderstanding, the contract prevails. It has to be assumed that the parties had entered into such contract without the item, which should have been covered.

Loss of Basic Business Understanding (Wegfall der Geschäftsgrundlage)

As "basic business understanding," case law has defined those ideas of a party that become apparent during the negotiations, were recognized by the other party and were not objected to. If and when this happens the will and intention of the party to enter into the agreement was based on it. If such basis later on disappears parties are forced to renegotiate the deal. Courts will do the negotiation if necessary if the partners cannot agree on a way to adapt the contract to the changed circumstance.

Rescission Because of Mistake (Anfechtung)

If one of the parties was in error when making a declaration, or did not want to declare at all, what actually was declared it may rescind if it can be assumed that in reasonably evaluating the case a party would have not made such a declaration. For license agreements this will mean an ending of the contract

for the future with most likely no repayment of the royalties already paid.

Construction of Contract (Auslegung)

As it was mentioned throughout, by and large in a case of ambiguity courts will construe the license agreement. At least under German law (Section 157 German Civil Code), courts will use principles of good morals to do so. In construing a contract, courts will further take into account the history of the negotiations, the circumstances of entering into the deal, the interests of the parties involved, the experience of the parties, and the customs in the respective technical field.

If an omission is found in the agreement, courts will close this also by construing the agreement.

By and large it can be said that it is very difficult to predict what courts will come up with when doing so, as each case, as always turns on its own facts.

WHAT TO DO IN CASE OF AMBIGUITY?

The legal results just described do not paint such a bright picture that the parties with some confidence can look into the future and can rely on a court to find a solution that will satisfy both parties. What alternatives exist?

Negotiations

If it is at all possible, the parties

should get back to the negotiation table and try to resolve any ambiguity. One should always sit down and talk first before any other steps are taken. As licensing is a risky business no one is "losing face" in asking for negotiations, if that is necessary, even after the deal had been concluded.

At least under German law, as has been shown above, parties are even legally forced to negotiate, if there is a so-called loss of basic business understanding.

Alternative Dispute Resolution

Before even providing a sketchy outline of ADR possibilities, one caveat has to be made. Especially with regard to alternative dispute resolution, no clear definitions exist. What for one party is "arbitration" might be for another party "mediation," and vice versa. Therefore, in line with what has been said so far, it is mandatory that the parties define what they actually mean by whatever alternative dispute resolution means they put into their agreement.

The most often used alternative dispute resolution possibility, arbitration, unfortunately has to be described as costly, lengthy and burdensome. It will, under the circumstances discussed here, always come too late for a fruitful exploitation of the technology.

Mediation, which term is used here for appointing an expert who will go back and forth between the

parties to find a solution, might be something to effectively deal with a situation of ambiguity. There are various legal possibilities to structure this mediation (may it be binding or nonbinding), but it could provide, if it is done properly, for a short and effective procedure, which helps both parties to overcome the situation of deadlock. Especially, it will enable the parties to go on with their day-to-day business.

All in all, it is preferable to provide for a certain level of alternative dispute resolution in case of technical disputes about what actually is licensed. One should not let all disputes escalate to arbitration or litigation, but find for other means to quickly and effectively solve problems.

Litigation

This is the worst possibility. It will definitely lead to an interruption of the business relationship.

SUMMARY

It is necessary to spend time and money in preparing, negotiating and drafting a license deal, as this is a business endeavor that is worth the allocation of time and money. Of course, the saying is true, "Let's cross that bridge when we come to it." In the licensing business one should make sure that both parties know where such bridges are.