



FENWICK & WEST LLP



# Technology Licensing and Online Commerce

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Legal Transactions Guide



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## Introduction

This Guide covers most typical transactions involving technology and high technology and online products and services. These include:

- Online Commerce
- Distribution
- Software Licensing
- Trademark Licensing
- Patent Licensing

Beginning with licensing fundamentals useful for those with limited experience counseling clients in high technology and digital media transactions, this Guide proceeds from one transaction type to the next, describing first key issues and then transaction strategies.

The checklists at the end of this Guide will be helpful in getting started in representing high technology clients in a variety of transactions. These include check lists for:

- End User License
- Distribution Agreement
- Development Contract
- Product Supply Agreement
- Wafer Supply Agreement
- Trademark License

The information contained in this Guide is not exhaustive and should not be considered as a review of business and legal issues relevant to a particular transaction. This Guide is intended to supplement but not substitute for legal research and advice of legal counsel.

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## Licensing Fundamentals

A license is a contract between a “licensor” and a “licensee” that allows the licensee to make some specified use of the licensor’s property. Typically, the licensor’s property would not otherwise be available for use by the licensee, either because it is a trade secret not known to the licensee, or because there is some legal restriction, such as a copyright, mask work right or patent, that prevents the licensee from using the property.

### Variations on Themes

Technology and intellectual property licenses come in an unlimited number of variations. They can have an infinite variety of restrictions and extensions, limitations and conditions; subject matter and objectives.

The most common kind of license is a nonexclusive license. A license is nonexclusive if the rights granted to the licensee may also be granted to others. For instance, a typical license to use a commercial software product is nonexclusive, since there are many licensees for that product. If a license is silent about whether rights are exclusive or nonexclusive, the rights are probably intended to be nonexclusive (although other language in the contract and even circumstances outside the license agreement may be considered to determine that the parties intended exclusivity).

A license is exclusive when the licensee is the only recipient of the rights. In other words, in an exclusive license, the licensor transfers all of its rights to a single licensee. For instance, a semiconductor wafer manufacturer may be the only manufacturer granted the right to process silicon wafers using a particular testing technology. However, a license is not exclusive merely because no other licenses have yet been granted. Generally, if the language of the license grant is silent, not only may the licensor continue to make commercial use of the licensed technology or intellectual property, but the licensor may make additional nonexclusive grants to other licensees. Exclusivity is not implied by silence (although, again, other language in the license contract and circumstances of contracting may be considered to infer exclusivity).

There is also a hybrid of a nonexclusive license and an exclusive license, called a coexclusive license. Under a coexclusive license both the licensor and a single licensee may exercise rights in and under the subject intellectual property. In the absence of a contradictory provision in the license contract, if the licensor has granted a coexclusive license, the licensor may not grant additional licenses to anyone else.

Most licenses are unilateral, but cross-licenses (in which 2 or more parties grant bilateral or multilateral rights to one another) are appropriate in many circumstances. Cross-licenses are often implemented when settling patent infringement suits (when the alleged infringer

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becomes a counter-claimant). Cross-licenses are also popular when companies collaborate in some kinds of joint venture or industry technology sharing arrangements.

Certain intellectual property rights may be granted by an oral or implied license, depending on the intellectual property being licensed and the nature of the right to be granted.

A copyright license may be oral, written, express or implied, although the right to create a derivative work usually must be written and express.

A patent license to use, sell or import an otherwise infringing manufactured item can be oral and implied. A patent license to manufacture, though, must be written and express. However, sale of a noninfringing product impliedly conveys the right to practice patent methods inherent in the use of the product that are covered by the patent.

A license to use trade secrets can be oral and implied. Whether an oral license is granted is a question of fact. Implied rights to use trade secrets are determined by the circumstances of the relationship. Rights of use will typically be implied by the delivery of trade secrets to the user unless there is an agreement to the contrary. On the other hand, the right of a recipient of trade secrets to reconvey is not usually implied unless there are circumstances that show the licensor's intent to grant the right to reconvey. Of course, if information is not treated as a trade secret, then the licensor may not have a protectible interest in such information. Without a protectible interest, there is no restriction on reconveying the information unless there is an agreement to the contrary. A licensor's rights with respect to a trade secret derive less from property theory than from a contractual or fiduciary relationship with the licensee.

Know-how can be treated as a trade secret if it is non-public and otherwise meets the legal definition for a trade secret. Alternatively, know-how can be information that, in and of itself, is public but the manner or fact of use in a particular way is not widely known. Know-how can be licensed as if it were proprietary under a contract that treats it as proprietary, whether or not it meets the statutory or common law definitions of a trade secret. Again, unless there is an express or implied agreement limiting use or reconveyance of know-how, there is an implied right to use and reconvey to others.

### **The License Grant**

The grant of a license not only conveys rights but also sets parameters for the exercise of those rights. Magical language is not required to convey a license. A license is really just a permission, to do something. However, precision and specificity are almost always preferred. Vague or ambiguous terms in a license grant comprising eight lines of an 18-page license agreement are more likely to be the source of conflict than any other provision of the agreement.

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There follows a short list of terms frequently inserted in the grant language of a technology or intellectual property license:

- Nonexclusive v. exclusive — as discussed above
- Worldwide v. a defined territory — geographical parameters
- Perpetual v. a term of years (or months or days) —temporal parameters
- Irrevocable — can never be terminated early
- Nontransferable — cannot be assigned
- Royalty-free v. royalty bearing — references separate payment terms
- Unrestricted use v. a field of use — as discussed below

**Sample License Grant.** Subject to the terms and conditions of this Agreement, Licensor hereby grants to Licensee and Licensee accepts a worldwide, fully-paid and royalty-free, perpetual, nontransferable license for the term of this Agreement, to use the Licensed Technology to develop, make, use, import, sell, offer to sell, and import products in the Exclusive Field of Use.

**Perpetual v. Irrevocable.** The terms “irrevocable” and “perpetual” mean different things. A perpetual license is one that has no given end. An irrevocable license cannot be cut short. Either a perpetual license or a license with a stated term can be either revocable or irrevocable. A good analogy is this: perpetual means a string of infinite length; whereas, irrevocable means a string (of any length) that cannot be cut.

**Implied Terms.** In some circumstances, terms may be implied in a license grant if they are missing. For example, if the license is neither expressly perpetual nor limited by a stated term, then the usual implication is that the term is perpetual. Similarly, if there is no stated territory limiting exercise of the license, then worldwide rights usually will be implied (although there would be no such implication where intellectual property specific to one country, such as a patent, is being licensed). As above, if the license is neither expressly exclusive nor nonexclusive, then usually the license will be deemed to be nonexclusive. Patent licenses are generally not assignable unless expressly stated. Non-patent technology licenses that are not stated as nontransferable probably are impliedly assignable unless there is a separate restriction on assignment. Also licenses without given field restrictions ordinarily would not be considered to have such restrictions. It is important to note, however, that a term that is usually implied may not always be implied if other language in the contract or circumstances imply a contrary term. Also, local laws and courts vary in implying terms to a contract. For these reasons, again, precision and specificity are preferred in the license grant.

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## **Transaction Strategies**

### ***Fields of Use***

Some licenses grant unconstrained rights to use technology or make commercial use of intellectual property. Others have specific field of use restrictions. These restrictions come in many colors and flavors. Some describe the field by product, others by function, performance criteria, physical characteristics, markets, combinations with other products or technology or other technical or use aspects.

Field of use restrictions can bound exclusive or nonexclusive rights. For example, a licensee may be granted exclusive rights to a circuitry technology within the exclusive field of semiconductor implementations and nonexclusive rights in the field of printed circuit boards. Where there are both exclusive and nonexclusive fields of use, it is most common that the nonexclusive field be defined broadly and simply as all activities outside the exclusive field. However, field of use definitions should be tailored to the technology, product opportunities, market conditions, commercial strategy of the licensor, and any unique aspects of the relationship between the licensor and licensee, such as their respective technical assets or access to particular channels of distribution.

Field of use restrictions present important strategic issues for both licensor and licensee. The value of the license granted is a function of the scope of rights granted. Obviously, the broader the scope the more value received by the licensee; the narrower the scope the more value retained by the licensor. However, it is difficult to define today a field of use that adequately takes into consideration emerging, merging and submerging technologies, products and markets. Field of use restrictions often have unintended effects. It is not possible to know with absolute certainty how technologies, products and markets will trend. Too often in licensing technology not enough thought is given to future trends or to researching or predicting them.

### ***Exiting the Relationship***

One of the key aspects of the value of any license is its term. Licensees generally always want the longest term available (so long as unrecoverable fees do not exceed the value of the longer term). As above, trends in technologies, product opportunities and markets may induce the parties to reassess the scope of the license and any use restrictions from time to time. Providing a specific expiration date is one good way (although there are others) to get the parties to meet and make their reassessments and negotiate new, more appropriate terms for a renewal period.

After expiration, renewal terms are often provided for the purpose of adjusting the terms of the license. However, such adjustment usually requires the agreement of both parties. One option, which gives the licensee some leverage at the time of renewal, is to provide that there shall be no change in terms if the parties cannot agree to any, but the renewal term will

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commence anyway. Another option, giving more leverage to the licensor, is for the term of the license to end without renewal if the parties cannot agree on new terms.

A third option, giving the decision on terms to a neutral decision maker, is probably unworkable in most situations. It is difficult to give the decision maker sufficient guidance to make an informed and fair decision. Situations where such a decision maker may be successful might include determining price changes based on then current sales data. But it would be very difficult for a neutral party to realign the parties' exclusive rights based on current technology and market trends that were not anticipated by the parties and for which they have expressed no clear intent.

Rights of early termination also present potentially strategic issues for licensor and licensee. At one extreme, there are licenses that allow for the licensor to terminate without cause (*i.e.*, for convenience). At another extreme there are irrevocable licenses that cannot be terminated even due to a material default by the licensee. In between are licenses that can be terminated only for cause, which may be subject to notice and an opportunity to cure the default. In some licenses it makes sense to provide different rights of termination for different events. For example, there could be a right of termination without cause upon very long notice, a right to terminate for cause without notice for some kinds of default, with notice and opportunity to cure for other kinds of default, and no right to terminate for breaches of the agreement that are not expressly mentioned as terminable offenses. In determining when and whether a license should be terminable, the parties should consider the nature of the breach or default, the harm resulting to the licensor from the breach or default, the harm and risk to the licensee that may result from termination, and the availability of other remedies, such as damages, to the licensor in lieu of (or in addition to) rights of termination. Note however, that rights of termination are covered by local laws in some jurisdictions.

The rights of the licensor and licensee at the end of the license, upon expiration without renewal or upon early termination, can also vary significantly. In some license agreements, the licensee has no post-termination rights under the license at all. In other words, notwithstanding the hardship on the licensee, it may exercise no further rights. In some license agreements, the licensee may have post-termination rights to meet the licensee's customer orders received as of the date of termination. In others, the licensee may continue to make use of technology received as of the date of termination but will have no rights to technology, including modifications and improvements, after the date of expiration or termination.

#### ***Revenue and Compensation***

Of course, licenses may be free, but they usually bear fees. License fees can be categorized broadly into nonrecurring fees and recurring fees. Nonrecurring fees are usually one-time payments, although variations exist for installment payments. Nonrecurring fees are usually,

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but not always, specific amounts stated in the license agreement and not subject to adjustment based on volumes or other performance factors. Recurring fees are of two types. Some are periodic fixed fee payments which may be adjustable based on stated criteria or royalties. Royalties are usually volume-based fees, calculated either on product unit volumes or as a percentage of revenues.

Setting royalties and other compensation terms to meet the parties' expectations requires an understanding of what is being licensed, how it will be used and how it will be exploited. The method of calculating revenues and royalties, in particular, presents some strategic issues related to proper capture and revenue recognition. These issues exist for many kinds of licenses but are discussed further in the section titled "Software Licenses."

## **Online Commerce**

### **Key Issues**

The advent of the Internet has given rise to a great number of new online commercial activities. These range from the provision of basic Internet connectivity services, to Web site hosting, Web design services, email and Web-based advertising, pull and push information services, online financial services (both over the Internet and via direct line) and other commerce coming into being at and after the time of this publication. As used in this booklet, the term "online" means accessible via dial-up modem or over the Internet including the World Wide Web (the "Web").

### **Content Providers**

Many of the business and legal issues in online commerce concern the use of digital content. The creators of audio, video, textual, graphical and image content have rights broad enough to disseminate their content in almost any manner. However, purveyors of digital content often use content that originates with others. It may originally have been provided for publication in print media or for broadcast.

Historically, licenses for such content have not contemplated its use in the digital domain. Making that content available online may require a specific authorization.

Infringement by others may mean economic loss or the loss of proprietary rights in the content. Infringement may result directly when, for example, an infringer reproduces content without authorization, either for the use of the infringer or for redistribution and reuse by others. Infringement and economic loss can also result from linking, framing and caching (also spelled "cacheing").

In Internet parlance, linking is connecting transmitted Web pages at different Web sites by using an activated graphical element such as highlighted text, a button or icon. In making this connection and transmission, the user receives content from the next, linked Web site.

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Linking can result in an authorized transmission and copying of another's content. This transmission and copying may infringe another's copyrights in and of itself. Linking may also be an unauthorized use and infringement of another's proprietary names and marks. Linking may be authorized however by express or implied license. There may be a disadvantage to the owner of the copyright in content of the linked site if a false association between unaffiliated Web sites is perceived or if the linked Web site operator is seeking to control means of access for other reasons.

Whereas linking "moves" the user from one Web site to another, framing provides an onscreen visual experience of seeing content from one Web site surrounded or framed by content from another Web site. Framing often involves removing or reformatting the framed content. This editing of the framed content may represent a derivative work not authorized by the copyright owner of the framed content. In any event, frame content can augment the framed content. For example, news articles from one Web site may be framed by topically related commentary and/or links to related pages or even additional relevant Web sites. Frames also frequently contain advertising. There may be a disadvantage to the owner of the copyright in framed content if the user's "visit" to the framed content site is not recorded for purposes of calculating advertising exposures and revenues.

Caching may not alter the user content at all but does affect the timing of its delivery. Caching is storing content in intermediate servers for retransmission. By storing content in servers "closer" to the user, transmission time to the user may be reduced or transmission difficulties avoided. However, cached content often becomes outdated, especially news content, reflecting badly on the publisher of the content. In any case, caching usually means that visits to the content publisher's Web site are not recorded for purposes of calculating advertising exposures.

Agreements that expressly authorize linking, framing and caching are sometimes called "Web Affiliation Agreements" or merely "Affiliation Agreements." They may provide detail about the manner and means for linking, placement of links, format for framing and frame content and caching rules including the duration of a cache. They may also provide for compensation to the publisher of the content.

Even with adequate rights of ownership or authorization, making content available online exposes the provider to a number of risks concerning content and its protection from infringement.

Export control laws may continue to make it unlawful to transmit or post some digital content on the Web, including content encrypted with certain advanced methods. Since content posted to a Web site is accessible by foreign nationals and individuals outside the U.S., posting is technically an export governed by the export control laws.

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Content may be provided under a license that governs, among other things, the use and reproduction of the content. So-called “Click wrap” licenses and other online contracts present several legal issues not unlike those presented in recent history by shrink wrap licenses. Their enforceability may turn on whether they are reasonable and, most importantly, whether there has been an assent to the terms of the license.

One thing that an online content licensor can do is to require the licensee to scroll through the terms of the license, indicating that the licensee has read and agrees to key terms by typing in “yes”, or another term of agreement, or by providing some other manifestation of assent, all before the licensed content becomes accessible.

Even with such manifestations of assent, a licensee may not be reading and comprehending the terms of the license and could claim a lack of understanding of terms, especially onerous terms. It is probably more important in online contracting than in other contexts that the terms of an agreement presented on a screen, which may not be read as carefully as a paper copy, should be reasonable. To the extent practical, online contract terms should be normal and customary (and therefore expected). If not, they should be specially highlighted and require a special manifestation of assent. In some cases, this assent can be recorded by the content provider at the Web site and then archived. By employing these techniques, a click wrap agreement may be more likely to be enforceable than many shrink wrap licenses.

Some online content can be made available subject to authentication and other security requirements. Web sites that are primarily advertising sites are not good candidates for security or authentication. However, paid-for subscription information services can more easily make use of passwords and other data exchange, including watermarks and digital signatures, to protect against unauthorized access.

***Protection Checklist for Providing Online Content:***

Online content providers can do a number of things to protect their content, including:

- register copyrights in the content at the outset
- apply copyright notices to all content
- display notices on Web sites that provide rules of access
- exclude use by visitors from countries that do not honor legal protections for online content
- use a clear and understandable online license that is not overly onerous
- obtain an unmistakable assent by the user to the terms of any content license
- archive click wrap agreement assents
- employ security techniques as appropriate
- use nondisclosure agreements for and limit access to valuable nonpublic information

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As with many techniques available to protect online content, the means of protection need to be practical under the circumstances. Risk management, efficiency and public relations must be factored in together to determine when protective measures are appropriate.

### **Service Providers**

A variety of Internet service providers have emerged to make Internet accounts, email boxes, bulletin boards, list serve publications, and hosted Web sites available. Some of these providers combine other services, such as telephony or television transmission services and content published by the provider. As Internet service providers they take on potential liability for the actions of their subscribers.

Among the risks for Internet service providers are liability for defamation, invasion of privacy, and contributory infringement. These service providers may include in their contracts with their subscribers admonitions and prohibitions on transmitting content in ways that create this liability, although doing so is not a complete screen to liability.

Liability also may exist when service is interrupted or data is corrupted, presenting potential liability to service and data recipients. Again, the service contract can provide warranty disclaimers and limitations on liability (see samples for these provisions under “distribution” below) for damages in order to reduce or eliminate potential liability of these kinds.

### **Transaction Strategies**

Some kinds of online transactions and commercial relationships present strategic issues, related to compensation, publicity and stability of services.

Content distribution agreements make information and other content available to Internet service providers (called “ISPs”) and Web site operators. The content may be provided for a fee or in exchange for advertising or promotional opportunities. An issue that arises for content providers concerns caching (when content is stored for repeated, more “local” and quicker retransmission to the service provider’s customers). Caching is a technical solution to the “world wide wait” that results when Internet routes are clogged. However, as noted above, stored information can become stale, reflecting badly on the publisher (who appears to be out of date). Content subscription agreements can either prohibit or permit caching, or set rules for permitted caching.

One of the economic benefits driving a great deal of Internet commerce is advertising. Advertising on the Web generates fees paid by advertisers to content publishers and ISPs who package ads with their content and services. Advertising rates are based on exposure, which is measured as advertising “hits,” recorded each time an ad is “delivered” to a Web visitor (sometimes called an “eyeball”). Technical limitations make it difficult, in some cases, to record and calculate hits. Some linking bypasses the trigger for a hit, and the trigger for a

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hit is not passed on when content is cached. Again, content distribution agreements can address caching and linking and attempt to ensure that advertising hits are recordable by the publisher.

Linking also presents some interesting business issues. A link is often a button or icon with the name or logo of the linked Web site host. Business, service and trade names are trademarks that require protection in their use. Permission to use a trademark is itself a license, raising a number of issues specific to trademarks (a discussion of these issues appears below in the section titled “Trademark Licensing”). Placement of a link or “hot button” has commercial implications, as well. A button that is hidden will not draw Web site visitors as well as one that is prominently placed. Content distribution agreements can specify the placement and appearance of a link.

Framing is permitted in some content distribution agreements. The reformatting of content, as a frame around other content, allows the Web site visitor or ISP customer to view content from multiple sources. The related phenomena of banners and headlines also extract their content from a larger source. These manipulations of content can undermine the integrity of the content, by conveying only partial information, even making it misleading, or by disguising the original publication and publisher. Nevertheless, some content distribution agreements do permit framing, especially when framed content itself can serve as a Web link to the content source.

One of the difficulties in conducting commerce online is that content is not always provided under a distribution agreement. It is often pulled off the Web without a contract or any permission at all. Without a contract, there is little or no opportunity to prescribe practices to address caching, linking and framing issues.

## **Distribution**

### **Key Issues**

Distribution rights are often but not always granted in the form of a distribution license. If the distributor is not reproducing a product, but is merely reselling tangible goods, then a technology or intellectual property license is not required. Such tangible goods might cover, by way of example, computer hardware, semiconductors or recorded software on magnetic media. However, modern tradition is to grant a “distribution license” or to “appoint” a distributor. The distribution agreement usually covers other transactions topics, including terms of supply by the seller. Trademark use rights are also typically conveyed in the distribution agreement (see the section below concerning trademark licensing).

Whether or not conveyed in the form of a license, distribution rights can have many of the same attributes as technology licenses. For example, the right to distribute may be exclusive

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or nonexclusive, may be worldwide or limited by a territory, may have market or product bundling restrictions, and may even be irrevocable.

From the licensor's perspective, market penetration and channel control are key issues. If an exclusive license is granted, it may be conditioned upon the distributor meeting certain minimum performance goals, such as sales or revenue targets.

### **Supply Terms**

In distribution arrangements that do not include product reproduction rights, there is usually a supply arrangement. Terms and conditions of supply can vary from industry to industry and from distributor to distributor. Certainty of supply is a key issue for distributors. Avoiding unmanageable supply obligations is a key issue for manufacturers. In some industries, such as silicon wafer processing, "capacity" is sold rather than fixed unit quantities. In some distribution agreements, the manufacturer can soften its supply obligations by only agreeing to use some level of efforts to meet the requirements of the distributor. Some manufacturers are comfortable in agreeing to meet their distributors' product volume requirements if they are forecast adequately in advance.

Other supply terms can be appropriate, including order lead times, cancellation and any associated charges, order rescheduling, stock rotation and more general return rights.

### **Risk Allocation**

Products supplied by the manufacturer often come with warranties of functional or performance quality, sometimes limited for a period of time. The manufacturer's obligations under the warranty are usually limited to replacing or repairing the product or refunding the product price, the choice usually being the manufacturer's. However, a refund may not adequately compensate a distributor that has bundled its own products in the subsequent sale. In any event, warranties are usually accompanied by warranty disclaimers, negating warranties implied under the Uniform Commercial Code and Common Law, such as the following:

**EXCEPT FOR THE EXPRESS WARRANTIES SET FORTH ABOVE, SELLER PROVIDES AND BUYER RECEIVES NO OTHER WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR IN ANY COMMUNICATION WITH SELLER. SELLER SPECIFICALLY DISCLAIMS THE IMPLIED WARRANTIES OF [NONINFRINGEMENT], MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.**

Note that the text of the warranty disclaimer is fully capitalized and printed in bold type, since some courts have held that such disclaimers, if they are not obvious, may not be enforceable. Obviousness is less of an issue when legal counsel are involved in document preparation and negotiation. Note also, that the disclaimer of the implied warranty of noninfringement is not really the disclaimer of a product warranty, but is nevertheless occasionally included in the disclaimer.

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Another area where risk is frequently allocated is potential liability for certain kinds of damages. Most manufacturers and other sellers are not willing, given their pricing structures, to assume potential liability for lost profits and other consequential damages that may be incurred by a customer. As a result damages limitation provisions are common, such as this:

IN NO EVENT WILL SELLER BE LIABLE UNDER OR IN CONNECTION WITH THIS AGREEMENT, UNDER ANY LEGAL OR EQUITABLE THEORY, FOR INDIRECT, CONSEQUENTIAL, SPECIAL OR INCIDENTAL DAMAGES OF ANY KIND, WHETHER OR NOT SELLER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

Note again that the text has been written in bold text with capitalized letters to be more obvious to the reader.

Potential infringement liability to third parties is often covered in a warranty disclaimer or indemnity in a distribution or license agreement. The implied warranty of noninfringement may be disclaimed in the contract, but this leaves the distributor with no protection for third party claims of infringement. In fact, however, some distribution and license agreements provide an indemnity under which the seller or licensor is obligated to defend against infringement claims and pay damages incurred to the claimant. Some also provide for damages suffered by the distributor or licensee as a result of the infringement claim.

### **Export Controls**

All exports, including sophisticated technologies (including some software) and some high technology goods are subject to export control laws of the U.S. and other countries. Severe penalties exist for U.S. exporters who do not comply with export regulations. Violations can include direct export to a prohibited country or failure to obtain assurances from a foreign recipient that exported items or materials will not be re-exported in violation of the regulations. As a result, many license and distribution agreements contain export control clauses, such as this:

Distributor understands and acknowledges that Seller is subject to regulation by agencies of the U.S. Government, including but not limited to the U.S. Department of Commerce and by similar agencies of other governments, which prohibit export or diversion of certain products and technology to certain countries. Accordingly, Distributor agrees to comply with the export control regulations of such agencies and to cooperate with Seller in such compliance. Seller's obligations under this Agreement are subject to Distributor's compliance with such regulations.

Note that the export control regulations specifically require that recipients of some exports in some countries must provide written assurances of their continuing compliance with relevant export control laws (in addition to the brief obligation provided above).

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### **Channel Control**

Many publishers and manufacturers who use distributors to market their product seek to exploit multiple channels of distribution. Prices for some channels may be different than prices for others. Some channels may actually require protection to remain viable and to increase overall market penetration. Examples of channels are geographic distribution markets that may be defined country by country or region by region that can be reflected in territory restrictions in the distribution agreement. Others include OEM (original equipment manufacturer), VAR (value added reseller), SI (system integrator), stand-alone (unbundled) product, reseller only or end user only product markets. It is often important that products sold into one channel not be resold into another if an unfair marketing or pricing advantage will result. Distributors who bundle their products, for example, are often prohibited from reselling stand-alone products (although the resale of stand-alone products as spare parts may be permitted). The nature of the bundling that is required may be specified in detail or may otherwise be very limited. Many OEM and VAR agreements even specify the particular OEM or VAR product that must be bundled with the manufacturer's product for resale. Bundling requirements may raise antitrust issues to be analyzed.

### **Revenue Issues**

In a simple distribution arrangement under which the distributor purchases products for resale, it may be the case that all of the revenue that the manufacturer is to receive comes from the product sale. The distributor is then free to mark up the product and pocket the net profit. In some alternative arrangements, the fee paid by the distributor may be calculated as a percentage of revenue received on the distributor's sale. Such an arrangement is fairly common when the distributor also has received reproduction rights. The manner of calculating revenue can become complicated, however, when the revenue is received on a product bundle consisting of both the licensor's and the licensee's product or technology. An allocation needs to be made. Allocations based on list prices for the fee-bearing product and non-fee-bearing products may or may not yield a fair allocation, depending on whether list prices accurately reflect market values.

Some distribution agreements that provide for product supply from the manufacturer contain provisions for price adjustment. For some products, such as semiconductors, prices may be volatile. For others, constant engineering investment and improvement means added value and upwardly trending prices. For most high technology products, however, improvements in manufacturing technology and designs will decrease costs to the manufacturer and result in decreasing prices to distributors. As a result, many distribution agreements provide for price adjustment. Some means of implementing price adjustments benefit manufacturers to the disadvantage of the distributors. Other means give the distributor the advantage.

For some products, price is a function of a published list price and a discount set forth in the distribution agreement. Because published prices are subject to change, and because other

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distributors may receive better discounts, some distributors seek “most favored customer” or similar beneficial pricing rights.

In many distribution networks, however, there is manufacturer pricing freedom to adjust prices upward or downward, although adjustments are usually subject to some minimum notice to the distributor. In such cases, adjustment is usually limited to adjustments to standard published price lists which presumably apply to other, distributors as well.

### **Termination Scenarios**

It is rare for distribution rights to be perpetual if distribution depends on supply by the manufacturer. On the other hand, when the distributor has reproduction rights, the licensor is not obligating itself to supply in perpetuity when granting perpetual distribution rights. In most distribution arrangements though, there is a specified duration of rights, and the term of distribution rights may be cut short by termination for cause or, in some cases, for convenience.

Upon termination, the distributor may have outstanding orders that need filling, or the distributor may have a warehouse full of unsold products. It may be appropriate for the distributor to fill its customer orders and empty its warehouse to minimize losses at the end of the distribution relationship. Such rights are sometimes called “ramp down rights”. Doing so, however, may make it more difficult for the manufacturer or licensor to transition to another distributor or means of distribution, since at least for awhile, there will be multiple competing sources for the products. Some distributors are entitled to “end of life buys,” in which the distributor may make a last purchase (contemplated to be large) at the end of the contract.

In other distribution arrangements, not only is the distributor required to cease all distribution upon expiration or termination, but the distributor is also required to return products to the manufacturer or supplier. The distributor also may be required to turn over business information including customer information and even tangible business assets such as product specific equipment, marketing and packaging materials, etc. With these, it is much easier for the manufacturer or licensor to minimize interruption of supply to the market.

## **Software Licensing**

### **Key Issues**

#### ***Identifying the Software***

It may sound like an inherently simple task, but identifying the software or specific versions of software that is the subject matter of a license agreement is not always easy. Software can also be made available in sets, suites or libraries, ported for certain operating systems but not others, optimized for use with some development tools but not others, bundled with

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third party supplied components or underlying software, or customized for use by the end user. It may or may not include new versions and new products.

### ***Identifying the Commercial Rights***

Commercial rights under software licenses vary widely. The simplest commercial use is for internal business purposes, although even this use may be difficult to ascertain. If the software is used to provide services to others, is the software still being used for internal purposes? Some users actually need their customers to have access to their commercially licensed software, to share data, place orders, track shipments or other common business activities. Further variations on end use rights include corporate-wide rights, site-specific rights, limited seat (concurrent user) rights, network use rights or single CPU use rights.

Commercial distribution rights may be fairly simple, unless the distributor has special bundling rights (as discussed in the section titled “Distribution” above). Distribution rights may or may not include reproduction rights.

Other software licenses permit the licensee to create modifications and derivative works of the licensed software, with often complicated combinations and permutations of rights.

### ***Compensation Terms***

Compensation terms under a software (or hardware) license are likely to be more involved than payment terms under a product supply or distribution arrangement. There may need to be an “initiation fee” or technology transfer fee, as well as ongoing fees frequently characterized as royalties. Fee provisions when there is technology or product bundling have their own complications (as discussed in the section titled “Development” above). Even more complex are fee structures when modified versions and derivative works are being created and marketed.

### ***Government Rights***

Software licensed to the U.S. Government is considered government technical data, subject to exploitation by the government, including potential commercial exploitation, unless a government restricted rights legend is inserted in the license agreement. Distribution agreements should explicitly require the distributor to affix the restricted rights legend in most cases. A common form of the legend is:

Use, duplication, or disclosure of the Software by the U.S. Government is subject to restrictions as set forth in subdivision (b)(3)(ii) of the Rights in Technical Data and Computer Software clause at 252.227-7013. Use, duplication and disclosure by the government of any other countries is subject to restrictions of similar applicable laws.

Note, however, that sales and licenses to the military may require a different legend.

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## **Transaction Strategies**

### ***Maintenance and Support***

Almost all software evolves, and no software is without faults, so software maintenance is usually a key aspect of most continuing software relationships.

Maintenance and support services, once incidental to many software businesses whose revenues were derived from license fees), have now become prominent profit centers in and of themselves. Some companies even give their software away, in order to make revenue on maintenance and support critical to continuing use of the software.

Software distributors need to be able to provide their customers with current software versions or they cannot remain competitive. This fact presents strategic issues both for licensees as well as licensors. A licensor can exert control over the future exploitation of its software by withholding future maintenance and support (if contracts with the licensee permit this). By the same token, a licensee's future business may be entirely dependent on continuing maintenance and support, without which it will go out of business.

### ***Source Code Rights***

While software development licenses usually provide source code rights, most commercial software licenses do not provide development rights. However, even where development is not contemplated, some licensees may not be comfortable being dependent on a supplier for continuing maintenance and support. There may be special discomfort when the licensed software is critical to the licensee's business success. When available, source code rights can allow a licensee to provide itself with maintenance and support that is no longer available from the licensor. Or, with source code rights, the licensee may be able to create new versions of the software that are important for the licensee's applications and that distinguish the licensee in its market.

## **Trademark Licensing**

### **Key Issues**

Trademarks are often licensed along with the grant of technology or distribution rights (although they can be licensed alone). Trademarks apply to goods. A mark used with services is called a "service mark," but similar licensing rules apply to both kinds of marks.

Like a technology license, a trademark license can be exclusive or nonexclusive, perpetual (although limited to use with a product or service for so long as it is available) or for a stated term, worldwide or for a limited territory, nontransferable or assignable, and fully-paid or fee-bearing. However, a trademark or service mark license, from the licensor's perspective, should never be irrevocable. This is because the right to revoke the license is the primary means by which the licensor exerts control over the use of the mark. Control is generally required to maintain proprietary rights in the mark.

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In general, trademark licenses have a narrow scope, limited to use with a particular product, line of products or service. Trademarks and service marks, when properly licensed, are subject to usage guidelines provided by the licensor and/or other usage criteria or approval procedures, again to maintain control over use, but also to ensure consistent use. Consistent use makes the mark stronger and the licensor's rights in the mark stronger.

Trademark ownership in the U.S. is equated with ownership of the goodwill in the reputation of the product, service or business signified by the mark. Goodwill increases with positive public perception of the mark, whether the mark is used by the owner or by a licensee. Therefore, it is of critical importance to the licensor to expressly retain ownership in the trademark license of both the mark and its associate goodwill.

Trademarks require maintenance and policing to preserve their value. Trademark registrations and renewals, defense to challenges and prosecution of infringers can be undertaken by the licensor or, by contract, the licensee. Trademark license agreements frequently require the licensee to maintain and police a mark in the licensee's local territory.

### **Transaction Strategies**

Trademark use by a licensee can be either discretionary or mandatory. Mandatory use of trademarks in connection with the exercise of a technology license or distribution of products can provide strategic advantages for the licensor. Because trademark use by a licensee must be well regulated, if a licensee must use a mark, in effect, the licensee's commercial activities under license or distribution rights may also be regulated.

Co-branding is popular in some industries, especially those in which products are sold by resellers who add products, technology or other value to what is supplied by the licensor or manufacturer. Co-branding arrangements allow both the licensor's mark and the licensee's mark to be used with the same product or service. They may appear separately or side-by-side. However, special care should be observed in co-branding, because of the potential for dilution (diminished distinction) that occurs when two or more marks owned by different owners are used together. Severe dilution can render a mark less valuable and even unprotectable.

## **Patent Licensing**

### **Key Issues**

Patents are government grants of monopoly to inventors for new, useful and nonobvious processes, machines and compositions of matter (*i.e.*, utility patents), and for new and ornamental and unobvious designs of manufactured articles (*i.e.*, design patents). The owner of a patent is given the legal right to exclude all others from the unauthorized use, manufacture, sale, offer for sale or importation of products or services covered by the patent.

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The economic motivation for inventors to seek patents is the prospect of revenue that can be generated from licensing such patents to others. The owner of a patented design or manufacturing process can negotiate patent licenses with manufacturers who find the design or process advantageous. A manufacturer might have to obtain licenses under more than one patent if the product or the process is covered by more than one patent.

Like technology licenses, patent licenses may be exclusive or nonexclusive, irrevocable, nontransferable (although see the discussion of the first sale doctrine below), royalty-free or royalty-bearing, sublicensable or non-sublicensable, have a specified field of use or no restriction on use.

However, the rules of patent licensing differ from the rules of technology in some important ways. While a patent license may be granted for a term of years (or shorter), a patent license is never, in and of itself, perpetual. The term of a patent is generally speaking 20 years from the date an application is filed. It is not lawful to grant a license and exact compensation for a patent that has expired. Similarly, if the patent is invalidated or found unenforceable and appeals have been exhausted, a patent license fee may be unlawful. A patent holder is usually careful to state, at the time of granting a license under the patent, that the grant and any continuing compensation for the license will end with the demise of the patent, *i.e.* its expiration, invalidation or court finding of unenforceability.

Attempting to license a patent beyond its life or demise may violate the doctrine of patent misuse. As mentioned above, the patent is a government-granted monopoly. The attempt to extend such monopoly — in time or scope — beyond the government grant is punishable by a forfeiture of the right to collect fees. Obviously, the licensor should be careful not to appear to extend the permitted monopoly of the patent, either in duration or scope. As a result, the provisions of a patent license are often painstakingly drafted to avoid such an appearance.

Of course, the designs, inventions or processes covered by a patent still have value to the licensee even after the life or demise of the patent. It is not necessary for the licensee to cease practicing such designs, inventions or processes afterward. This is because they are now in the public domain and freely available to all. Because often patent license agreements include a promise by the licensee not to practice the patented invention except as permitted by the license, it is traditional in a patent license to affirm the licensee's post-patent right to practice the inventions after the demise of the patent.

Hybrid patent and technology licenses are common. While a technology may be patented it may also be covered by other forms of intellectual property. These include copyrights or mask work rights, or rights in protectible trade secrets. In fact, many licenses purport to license technology and do in fact include some technology that is patented and vice versa. Even such so called technology licenses should be carefully drafted to avoid violating the doctrine of patent misuse.

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One issue that frequently arises in a technology license that includes patent technology is the effect on continuing hybrid license royalties upon expiration, invalidation or ruling of unenforceability of the patent. The doctrine of patent misuse requires a reduction of compensation equivalent to the value of the expired, invalidated or unenforceable patent. It may not be sufficient to wait and grant such a reduction upon the patent's demise. A provision for reducing the compensation under such circumstances should be included with the license at the outset.

In general, a license to manufacture goods or materials is nontransferable. However, the right to use such goods and materials is inherently transferable under the first sale doctrine when the goods, are first sold without restriction. The right to use the good or material transfers from one owner of the good to the next. Processes that are patented are treated differently than goods or materials that are patented, however. If it is the process that is patented, the sale of equipment used in the process need not automatically include the right to perform the process. If there is silence on the matter, however, a process patent license will probably be implied.

#### **Patent Transaction Strategies**

Patented inventions may be augmented by new, complementary inventions. New inventions may be developed by the patent holder, increasing the economic value of a patent portfolio or inventions may be developed by others, including patent licensees. In fact, patent licensees may be most likely to develop augmenting inventions if they are practicing the original patent inventions and attempt to innovate. To improve their intellectual property position, some patent licensors are successful in negotiating cross-licenses, sometimes called "grant backs" from the licensee that include the right to grant sublicenses. Such cross-licenses received from a number of licensees can aggregate to a much more substantial intellectual property portfolio, significantly leveraging the value of the original patent.

Sometimes augmenting inventions are implementations of the original patent invention. Sometimes there are a limited number of implementations. As a result, it is possible that an original inventor's patent can only be practiced by other holders of implementing patents. This is called "patent flooding." Grant backs for these implementations can mitigate or eliminate the problem of patent flooding.

When industry technical standards are being encouraged, patent licenses are often granted for nominal or no compensation. Cross-licenses are common in such circumstances for inventions within a defined area of implementation, an area that becomes virtually public.

Patents are monopolies granted by the government of a particular jurisdiction. A U.S. patent, for example, conveys only a monopoly in the U.S. A U.S. patent has no effect on the manufacture use or sale of the invention or invented process anywhere else. Often patent

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licenses are granted under existing as well as pending patents. If international distribution of a patented product is contemplated, then it is important for the licensee to receive a license for any corresponding foreign patents issued in all countries of distribution. If no corresponding patent is issued in a particular country of distribution, there can be no exclusive or even semi-exclusive distribution right for the licensee. However, the licensee may nevertheless distribute in that country. If a patent issues in a country of distribution but is not licensed, then the international distributor-licensee must avoid distribution in that country. such avoidance can be very difficult, and may disproportionately diminish the value of the international patent license.

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## End User License: Checklist

- Introduction:** The following checklist covers basic terms for a software license but contemplates licenses for other subject matter as well. End user licenses take many forms. Some are unsigned licenses, sometimes called “shrink wrap licenses” or in the vernacular of the Internet “click wrap licenses.” These unsigned licenses should specify some form of manifestation of assent to the license terms in lieu of a signature. In a signed license agreement, of course, it is the signature that manifests assent and agreement to the terms and conditions of the license. Many variations of end user licenses are covered in the checklist below.
- Identification of licensee:** This is not always done, especially with unsigned licenses, although mail-in registration cards for maintenance and support encourage the user to identify oneself to the licensor. End users are usually identified in a signed license. A corporate end user may need to be identified carefully, especially if an enterprise license is being granted (see “Enterprise License” below). Subsidiaries and other affiliates and successors-in-interest may or may not be qualified as end users, depending on the license.
- Subject matter:** Software, other technology or intellectual property such as a patent.
- Scope:** Specific identified purpose, broader field of use, or unlimited purposes.
- Enterprise license:** Some licenses permit use and frequently reproduction for use throughout an enterprise. The enterprise may be defined as a corporation, division or other business unit.
- Per seat license:** Some licenses permit multiple simultaneous users, sometimes called “seats.”
- Reproduction:** Occasionally an end user is granted the right to reproduce its copies of licensed software. For most kinds of end user licenses, reproduction is usually prohibited except to make back up and archival copies.
- Territory:** Specific limited geography or worldwide.

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<b><i>Term:</i></b>	Not required to be stated if the term is intended to be perpetual. But the term may be limited to any period of time (although a patent license may not have a term that exceeds the life of the patent).
<b><i>Termination rights:</i></b>	In general, a licensee may cease exercising a license at will. The licensor may want a right to terminate for cause, such as the licensee's material breach uncured for a specified number of days after notice of breach. Termination rights are inconsistent with a license that is expressly irrevocable.
<b><i>Fees:</i></b>	Fees need not be stated if a one-time fee is paid at the time of receipt of the licensed software or other technology. But it may remove ambiguity to be clear when there is or is not a fee payable. For example if there is no fee yet to be paid, the license grant may be expressly "fully-paid and royalty-free."
<b><i>Warranty and disclaimer:</i></b>	Express product warranties are common even with software. If an express warranty is provided, provision for a limited warranty obligation should be considered. Repair, replacement or refund are typical warranty obligations, usually with the particular obligation selected in the licensor's discretion. Some software has been found to be a good and subject to the implied warranties of merchantability and fitness for a particular purpose under the UCC. These implied warranties are typically disclaimed. The implied warranty of non-infringement may also be disclaimed. Warranties may also have a finite duration.
<b><i>Infringement indemnity:</i></b>	Some end user agreements include an infringement indemnity by the licensor against third party claims of copyright or sometimes other kinds of intellectual property infringement. The indemnity may limit the licensor's liability for infringement in the absence of a disclaimer of the implied warranty of noninfringement. The indemnity may limit the licensor's liability to coverage of defense, settlement, attorney fees and related costs.
<b><i>Limitation of liability:</i></b>	Consequential, incidental, special and indirect damages are usually disclaimed in an end user agreement (and in many other kinds of agreement).

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***Assignability:*** Many unsigned licenses are transferable with transfer of the permitted copy(s) of licensed software. Many signed licenses have restrictions on assignment. A license grant may expressly provide that the license is “nontransferable.”

***Miscellaneous:*** A license is an agreement and may include provisions commonly found in contracts, including governing law, jurisdiction and venue, severability, waiver and modification, notice requirements; attorneys fees, dispute procedures, and integration (entire agreement), among others.

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## Distribution Agreement: Checklist

**Introduction:** A distribution agreement contains many of the same terms listed in the End User License Checklist in this Appendix, including:

- Product identification
- Scope, such as field of use
- Reproduction rights, if any
- Territory
- Term
- Termination rights
- Fees
- Warranty disclaimer
- Infringement indemnity
- Limitation of liability
- Assignability
- Miscellaneous provisions

Other terms that may be appropriate to a distribution agreement may be found in the supply agreement checklist in this Appendix, including:

- Order
- Forecast
- Cancellation and Rescheduling
- Shipment
- Acceptance
- Returns
- Stock Balancing
- Support and Maintenance

**Reproduction rights:** Software and other product distributors may be distinguished by those that purchase and resell their products or, especially in the case of software, those that have reproduction rights.

**Sublicenses:** While end user licensees may occasionally sublicense, it is more common for distributors to have sublicense rights. If the distributor has reproduction rights, it may be given the right to sublicense those rights to foreign subdistributors or OEMs.

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***OEM distribution:*** OEM distributors have an additional right or, usually, an obligation to add value to the software or product that they distribute. This value is usually in the form of products or technology proprietary to the OEM distributor. “OEM” stands for “original equipment manufacturer,” but its use in identifying the distributor is counterintuitive because the original manufacturer is the licensor or product vendor. Variations on the OEM theme include value-added resellers or “VARs,” who also add value but usually sell to end users and system integrators who also add value but usually add value limited to combining the products and technologies of others. The requirement of adding value is a method of channel control considered by many licensors and other vendors.

***Territory:*** Territory restrictions are fairly common in distribution licenses. Territories may be exclusive or nonexclusive. Note that the laws in some countries limit permissible territorial restrictions. In the European Union, in particular, prohibitions on sales solicited by purchasers from other EU countries are unlawful. On the other hand, the distributor’s (as opposed to the buyer’s) solicitation of sales may be restricted even in the European Union.

***Fees:*** Ongoing fees are more common in distribution license agreements than in end user licenses. If the distributor has no reproduction rights and is purchasing directly from the licensor or vendor, then the fee is usually the unit purchase price. If the distributor does have reproduction rights, then the fee is usually called a royalty. It may be calculated per unit reproduced or distributed or as a percentage of revenues received. Provisions for royalties based on revenues should include any appropriate deductions from gross revenues, such as taxes, shipping and returns.

***Minimum performance criteria:*** The rights of distributors are often subject to minimum performance criteria or obligations, especially when distribution territories are exclusive. Such criteria may be based on revenues generated or units distributed.

***Term:*** Distribution licenses frequently have a stated term, especially when they cover distribution territories that restrict termination for convenience or cause. Frequently, however, a provision for a renewal term may be included.

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***Warranty and disclaimer:***

To some extent a warranty and effective warranty remedies are more important to a distributor than an end user, since the distributor may incur liability to its customers for defective products. Refunds may cover out-of-pocket costs for the distributor and may be passed on to the distributor's customers. However, to sustain the distributor's business it must have commercially viable software or other products to distribute.

***Assignability:***

Software licensors and other product vendors are usually more sensitive to assignment of a distribution license than an end user license. Some distributors may have distribution channels that complement the licensor or vendor's. Others, however, may compete directly with the licensor or vendor and would be undesirable distributors. From the distributor's perspective, a business built on distributing software or other products may be less valuable if the distributor does not have the ability to sell that business.

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## Development Contract: Checklist

**Introduction:** A development contract may be structured as either a “product” sale and delivery agreement or a “services” delivery agreement. In either case, there are usually deliverables. One of the key terms of a development agreement is the nature of the developer’s obligation. This obligation can be defined and conditioned in a variety of ways. In general, however, the more specific the obligation, the better for the purchaser; and the less specific, the better for the developer. The nature and specificity of the developer’s obligations usually correspond to the nature and level of compensation that the developer receives. Most development contracts have many provisions common to other agreements, such as end user or distribution agreements:

- License rights, including any sublicense rights
- Reproduction rights, if any
- Distribution rights, if any
- Warranty disclaimer
- Infringement indemnity
- Limitation of liability
- Assignability
- Miscellaneous provisions

**Description of Services:** The contract may provide for the mere provision of services, limited to the provision of personnel time. Alternatively, the contract may provide for specific deliverables to be delivered at specific times. Specific development and delivery goals to be accomplished at specific times are often referred to as “milestones.” Some development agreements contemplate a single development project. Others contemplate an on going development relationship with the parties’ future agreement from time to time as to new development projects. Such additional projects may be documented by countersigned statements of work including any milestone schedules or specifications agreed in advance.

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- Project Managers:*** Many development contracts provide for project managers for each party who meet periodically to discuss progress. These managers are some times assigned the duty to resolve issues that arise during the course of development, including design, implementation and staffing issues. The agreement may also contain an escalation clause whereby unresolved issues are discussed by higher ranking managers and officers of the parties.
- Specifications:*** Development deliverables are often defined by technical specifications. Such specifications may be general or detailed and cover performance as well as functional attributes and other technical parameters. Frequently, not all specifications are known at the outset of a development contract. They may be the first development task under the contract. They may trigger a discretionary right on the part of the purchaser to terminate the development contract if not satisfied. They may also form the basis for changes in cost or scheduling.
- Proprietary Rights:*** Either the developer or the purchaser may own the results of the development services. Ownership is negotiated regularly and may be a function of the level of compensation received by the developer. In general, though, in the absence of a provision granting the purchaser proprietary rights in the development results, under the copyright law's "work made for hire" doctrine and other intellectual property rules, the developer will own the development results.
- License Rights:*** The developer may have pre-existing technology and intellectual property upon which the development is to be based. It is important that appropriate license rights to such pre-existing technology be received. If what is being developed is intended to be distributed or used by anyone other than the purchaser, then it is imperative that such distribution and third party use rights be express.
- Fees:*** Development fees are structured many ways. Often they are paid through the course of development. Sometimes they are made in installments tied to key milestones. If background or pre-existing technology is also being licensed, a separate license fee may be appropriate.

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**Term:** Most development contracts provide specific development schedules. The contract may have a stated term as well but need not have one, if the duration of development and delivery obligations is expressly limited by the development schedule or otherwise. Some provisions of the development contract, such as license rights, may be intended to continue after the period of development or even be perpetual.

**Termination Rights:** The development contract usually contains provisions for termination by one party for cause or breach by the other party. It may not be appropriate for the developer to have the right to terminate for all breaches by the purchaser. It may be sufficient for the developer to receive extra time to perform where the purchaser's breach merely necessitates extra time. In addition, a purchaser may want the right to terminate a particular development project for cause or convenience. Fees for early discretionary termination by the purchaser may be appropriate.

**Warranties and Disclaimers:** Development purchasers may require warranties about the performance of the deliverables they receive. A warranty of conformity to specifications is typical, but some contracts that are true services contracts may not have any quality warranties. Developers will want to limit their responsibility under such warranties, usually to correcting the nonconformity. The warranty may have a limited term. Custom developed deliverables are less likely than off-the-shelf software or other technology to be characterized as goods carrying implied warranties. Nevertheless, it is still prudent to consider disclaimers of the implied warranties of merchantability and fitness for a particular purpose.

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## Product Supply Agreement: Checklist

**Introduction:** Product supply agreements contain varying degrees of detail. Some contain a minimum amount of detail and barely augment the terms provided in the parties' purchase orders and order acknowledgments. Others contain significant detail and can address every aspect of the supply relationship. In general, purchasers benefit from detail because it provides tests and standards for measuring the supplier's performance. Conversely, suppliers may prefer more general obligations leaving to their discretion many aspects of performance. A supply agreement is similar in many respects to a distribution agreement. However, a supply agreement will focus more on the terms and conditions of product delivery rather than the means, methods and limitations on resale found in a typical distribution agreement. For example, a supply agreement will rarely have limitations on resale, such as territory limitations or an obligation to add value prior to resale. And a supply agreement, even for software, will rarely include reproduction rights. A supply agreement usually contains many of the same terms listed in the End User License checklist in this appendix, including:

- Term
- Termination rights
- Fees
- Warranty disclaimer
- Infringement indemnity
- Limitation of liability
- Assignability
- Miscellaneous provisions

A supply agreement may also contain many of the terms lists in the Distribution Agreement checklist in this appendix, including:

- Minimum Performance Criteria
- Warranty and Disclaimer (also covered below)
- Assignability

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- Products:** The initial provision of most supply agreements is an identification of products to be supplied. For multiple product types; a list sometimes referred to as a price list, can be attached to the agreement. For longer term agreements for the supply of software or other high technology products, a provision to include future products may be appropriate, although a provision to supply future products is less common in a supply agreement than in a distribution agreement. Vendors may reserve-the-right to revise their product lists from time to time.
- Price:** Product prices may be listed with the products. They may also be subject to change. Where prices may change, the purchaser may require that price increases be subject to limitations. Examples of such limitations include maximum percentage increases per year, or prices not to exceed the supplier's prevailing price or best price made available to other purchasers. If limitations on price apply, the purchaser may receive pricing that decreases over time.
- Order:** Products are usually ordered using standard purchase order forms. Because such forms often contain preprinted terms and conditions, it wise to provide in the supply agreement itself that such terms and conditions will be of no effect.
- Forecasts:** Many supply agreements are entered into in order to ensure a continuity of supply. Forecasts can assist both the supplier and the purchaser in production and procurement planning. Forecasts may be either binding or nonbinding. One variation is for the current forecast quarter or month to be binding or even a deemed purchase order, with later quarters or months in the forecast remaining nonbinding. Minimum order lead times also should be considered.
- Cancellation and Rescheduling:** The supply agreement may provide that orders are cancelable or non-cancelable and may or may not be rescheduled. Limitations on cancellation and rescheduling usually apply and may be subject to specified fees. Any such fees may be set forth in a schedule. Usually, the longer the notice of cancellation or rescheduling, the lower the fees.

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<b>Shipment:</b>	Shipping terms should be included. The INCOTERMS guide specifies a number of shipping terms. FOB is used most often and is implied by the UCC if no shipping terms are specified. Shipping terms usually specify who bears shipping costs and the point at which risk of loss transfers, among other terms. Separate packing requirements are also common.
<b>Acceptance:</b>	For some products detailed acceptance procedures are appropriate. These may include unit sampling and test procedures. The supplier will usually want to provide that in the absence of a rejection or acceptance within a stated period, acceptance will be deemed to occur.
<b>Returns:</b>	Some suppliers have formal return procedures that may include contacting the supplier first for a return material authorization (or “RMA”) number. The RMA number can be used in the shipping invoice and packaging.
<b>Stock Balancing:</b>	Some supply relationships permit the purchaser to adjust its inventory by returning some products needed less in exchange for others needed more. When stock balancing provisions are included there are usually parameters to permissible exchanges. There may also be a restocking charge. Exchanges for new product versions that make older versions obsolete are fairly common.
<b>Product Warranties:</b>	Under the UCC, goods are accompanied by the implied warranties of merchantability and fitness for a particular purpose unless they are expressly disclaimed. Most tangible products will be considered goods under the UCC. Case law indicates that these implied warranties are easy to breach, even if the product is designed and produced well. Accordingly, vendors typically disclaim these implied warranties. Software has also been found to be a good, when packaged and sold like other goods. Because software contains errors or “bugs”, most software vendors are careful to disclaim these implied warranties. Where implied warranties are disclaimed, other warranties are usually provided. For example, the product or software may be warranted to comply with specifications, substantially comply, or comply in all material respects. Warranty obligations also should be carefully considered. Repair, refund or replacement are typical limited remedies under product warranties.

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***Support and  
Maintenance:***

Technology products frequently come with support and maintenance services bearing a separate charge. The terms “support” and “maintenance” have become all but interchangeable, and “support” may be deemed to include both technical support and traditional maintenance such as error corrections and enhancements. Support and maintenance are generally considered services. In many distribution and supply relationships, maintenance and support are subscribed for together on an annual basis.

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## Wafer Supply Agreement: Checklist

**Introduction:** Wafer supply agreements are distinguished from other kinds of supply agreements not only by their subject matter but also by the nature of the parties' supply rights and obligations. Semiconductor wafers usually have flaws. The incidence of these flaws is referred to as "yield." Another distinction is the variability of supply and demand for semiconductor wafers. To even out shortages among customers when demand is high and supply is limited, many wafer supply agreements sell "capacity" rather than pre-committed quantities. A wafer supply agreement contains many of the same terms listed in the End User License checklist in this appendix, including:

- Term
- Termination rights
- Fees
- Warranty disclaimer
- Infringement indemnity
- Limitation of liability
- Assignability
- Miscellaneous provisions

A distribution agreement may also contain many of the terms listed in the Supply Agreement checklist in this appendix, including:

- Order
- Forecasts
- Cancellation and Rescheduling
- Shipment
- Acceptance

**Products:** Wafers are in effect one step completed in the manufacture of a semiconductor device, with additional steps including die cutting, sorting, packaging and testing. The specifications for wafers are unique to the semiconductor device for which they are made. Nevertheless, changes in semiconductor products occur both as a result of new designs and as a result of new manufacturing process technologies. Typically, the wafer purchaser will collaborate with the wafer manufacturer (sometimes referred to as a "foundry" or "fab") in the evolution of wafer products and technologies.

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<b><i>Purchasing:</i></b>	Typically the foundry commits to provide manufacturing capacity rather than guaranteed quantities. Often quantities cannot be guaranteed because of the uncertainty of product yield, i.e. “good die” meeting the semiconductor product specifications. Semiconductor products are sometimes called “devices.” Usually yield can be improved for a particular device over time, giving the purchaser increasing certainty about supply. Depending on the degree of certainty of yield at the outset, a purchaser may attempt to negotiate guaranteed wafer quantities to be supplied.
<b><i>Yield:</i></b>	The yield for a particular device may be a function of how new or original the design is and whether it or any similar design has been implemented for the subject fabrication process. If a design has somewhat reliable characteristics, the foundry may be willing to guarantee certain minimum yield levels.
<b><i>Capacity Adjustments:</i></b>	The wafer supply agreement may provide for additional capacity to be made available to the purchaser if it is forecasting and ordering its maximum allotted capacity (and additional capacity becomes available at the foundry). Similarly, if the purchaser is not forecasting and ordering stated minimums, the foundry may have the right to adjust the purchaser’s allotted capacity downward.
<b><i>Ownership:</i></b>	The collaboration of the purchaser and foundry can lead to new process and design inventions. Usually the purchaser will own inventions specific to device design; usually the foundry will own inventions specific to the wafer fabrication or manufacturing process. However, for some inventions it is difficult to determine whether it is design or process specific. In any event, such new inventions can provide a competitive advantage and so their ownership may be controversial.
<b><i>Wafer Sort:</i></b>	Frequently, the foundry will provide, in addition to the foundry service, a wafer sorting service to weed out bad devices and Wafers.
<b><i>Die Cutting:</i></b>	Some foundries can provide the additional service of cutting the wafer into individual die, ready for packaging.

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- Packaging:** Not all foundries provide die packaging services, since packaging involves manufacturing techniques and equipment very different from those used in wafer fabrication. However, some manufacturers of semi-conductor devices will provide all of the services required to fabricate and sort wafers, cut and package die, and test packaged die.
- Testing:** Testing services, sometimes just called “test,” may be performed by the packager, by a testing contractor or by the purchaser. Testing usually requires sensitive and expensive equipment and so may be impractical for lower volume purchasers to perform for themselves.
- Prices:** Some wafer supply agreements allow the foundry some latitude to adjust wafer prices periodically based on market prices. Such a right to adjust prices may be a function of the level of commitment to purchase.
- Term:** The term of a wafer supply agreement can have unusual dynamics, especially in a market in which overall wafer manufacturing supply does not meet demand. Semiconductor manufacturing shortages have occurred historically. As a result, some rights of renewal for continued wafer supply may benefit the purchaser, even if prices may be adjusted at the time of renewal.

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## Trademark License: Checklist

**Introduction:** A trademark license may be the only subject of an agreement or it may be embedded in another agreement, such as a Web hosting, linking or co-location agreement, or distribution or supply agreement. An agreement to license a mark may include a number of terms found in the End User License checklist in this Appendix, including:

- Product identification
- Scope, such as field of use
- Territory
- Term
- Termination rights
- Fees
- Limitation of liability
- Assignability
- Miscellaneous provisions

**Subject:** The license may grant rights to a registered or unregistered trademark or service mark, as well as a logo or other business brand identification. A stylized icon used as a hot link on a Web site may qualify as a logo or trademark. In any event, it is important for the licensor to be very careful about identifying the mark being licensed.

**Ownership:** Ownership of a mark derives from one of two sources: In countries that were or are part of the British Commonwealth, ownership derives generally from use. Ownership extends to the geography, manner and industry of use. Registration has some value in these countries as a public notice of use and to qualify for certain kinds of remedies in an infringement proceeding. In most other countries, however, ownership derives from registration. Ownership may be established in the trademark license agreement by means of an assignment.

**Goodwill:** In countries where ownership is derived from use, goodwill is a proprietary interest that determines ownership. A trademark license should specify that goodwill resulting from the use of the mark by a licensee accrues to the licensor if that is the parties' intent. An assignment to the licensor of generic rights in the trademark may not be sufficient.

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- Use Guidelines:*** Because public recognition and goodwill in a brand or mark accrues from consistent use, uniformity of use has independent value. The license agreement should specify that use of the mark must conform to established usage guidelines or, where these do not exist, conform to the manner of use of the licensor (if indeed the licensor uses the mark). Compromises in such guidelines or requirements is often not appropriate since it is the manifestation of control over use that maintains the licensor's proprietary interest in the mark when it is licensed for use by another.
- Registration of Marks:*** Use of a mark in countries where the mark has not been previously used or registered, or use in a collateral industry, may require registration in the additional countries or for the additional industries in order to secure the licensor's proprietary rights in such countries and industries. The licensee's cooperation may be required for such registrations. This cooperation may appear as an obligation of the licensee in the license agreement.
- User Registration:*** Some countries require that authorized (licensed) users register in order for the owner of a registered mark to retain its ownership interest. The cooperation of the licensee may be required for registration. Accordingly, the licensee should be obligated in the license agreement to cooperate in the registration process.
- Termination:*** The trademark license should be terminable, if not at will, then for cause, such as failure to comply with trademark use guidelines. Because termination is a method of controlling use of the mark, it is probably unwise to make a trademark license irrevocable. To do so suggests lack of control which may affect the licensor's right to police use of the mark.
- Effects of Termination:*** Many trademark licensors will want to require the licensee expressly and affirmatively to cease use of the mark upon termination of the license. Further, the licensee may be obligated to cease using the mark in advertising, cease applying the mark to products or materials, cease distributing materials or products bearing the mark, or any combination of the foregoing.

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***Infringement  
Indemnity:***

Some trademark licenses include an indemnity of the licensee by the licensor against third person claims of infringement by the use of the mark. Because a trademark is a grant of monopoly or quasi-monopoly rights to the owner on a jurisdictional or other geographic basis, it may be risky for a licensor to provide an infringement indemnity. The licensor may not have the sole right or indeed any right to use the mark in some places. An alternative form of indemnity, against claims arising for failure to have registrations in identified countries may present a more balanced sharing of risk in some license relationships.

***Infringer  
Notification:***

Especially where the licensee is in a better position to become aware of infringement of a mark, the licensee may be obligated to notify the licensor upon discovering such infringement.

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