

Technology Licenses Should Be Agreed To With Care



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Technology licenses and the agreements that control how the license is used are now a common feature of most businesses. These licenses and related agreements govern the use of software, intellectual property and other technology (collectively, "Technology"). Although it may seem convenient and cost effective to simply accept the license offered, businesses should make sure that the license actually meets the needs of the business.

In summary, a license is created when the owner of Technology (the "licensor") grants a bundle of rights (but less than full ownership) to the recipient (the "licensee"). Technology owners benefit from a license

because they retain ownership over the Technology but profit from the licensee's use of the Technology. Licensees benefit from the license because they can exploit the Technology in their businesses without the investment of time and money to develop the Technology in the first place.

Here are several parts of the license and questions that a business should ask itself before agreeing to it:

The Scope of the Grant

What is the Technology being licensed and does the Technology meet the needs of business? In simple terms, does the license allow the business to pursue its goals?

Limitations on Use

Are there geographic or industry sector limitations on the use of the Technology? Do these limitations prevent the business from expanding into a potential market?

Exclusivity

Is the grant exclusive, or do others have the right to use the Technology through a similar license? An exclusive license is more valuable to the licensee, but the licensor will expect a higher royalty in exchange for exclusivity.

Term

What is the term (length) of the license? Does the license automatically renew or are there conditions on continued use of the license? Does the business have to give written notice in order to renew the license?

Compensation

What compensation is owed for the license? Is there an annual fee? Is the compensation based upon the number of users of the Technology or are there royalties due based upon the sale of products using the Technology?

Termination of License

What happens when the license terminates? Must the Technology be returned or can the user of the Technology continue to use the Technology without having access to periodic updates? Is there a buyout of the license at the end of the term, making the business an owner of the Technology?

Limitations of Liability

What are the limitations of liability? Is the licensor responsible for lost profit if something goes wrong with the Technology? Is the licensor limited in damages to amounts paid by the licensee over a specified period of time? For example: What happens if software or a related website becomes infected by a virus or malware and is unusable for a period of time?

Some of these subjects may be considered "boiler plate" in a contract and may not be given much thought by either the licensor or the licensee. However, failing to think about these things creates a very real risk that the goals of the business venture, including the license will not be met, leading to disappointment and monetary loss on one or both sides. It is worthwhile to carefully think about a license before signing it. ■

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