

MAY 2019

DEVOTED TO
LEADERS IN THE
INTELLECTUAL
PROPERTY AND
ENTERTAINMENT
COMMUNITY

VOLUME 39 NUMBER 5

THE **Licensing**
Journal

Edited by Gregory J. Battersby and Charles W. Grimes

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Technology Licensing

Gerald Welch

How To Avoid Setbacks When Developing Technology Outside of Your Company

When seeking to develop technology for a business, only two sources are available: employees within your company or technology developers outside your company. In today's competitive market, oftentimes companies must look to outside developers for the technology needed to stay current. The following column looks at a possible scenario that a company might face, and how to address the potential challenges that could present themselves when developing technology outside the company.

Example: You decide that you need to develop a more efficient motor for your product, powered curtains. You have identified a supplier that already sells motors that could be modified into a new product that would be well-suited for your new line of powered curtains. Under a standard confidentiality agreement, you provide the supplier with technical information including design specifications for the new motor and pay the supplier (developer) for developing the improved motor. The supplier develops the new motor and demonstrates its performance based on your specifications.

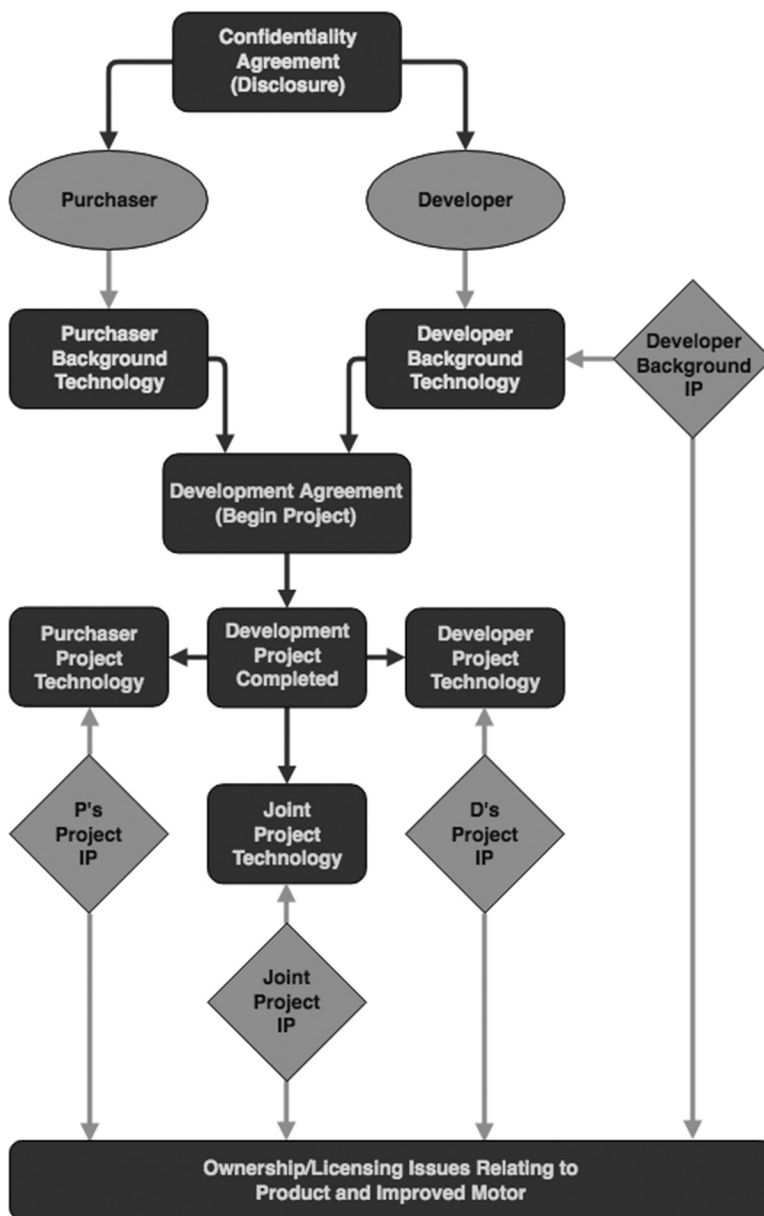
Problem: Although you are impressed with the improvements as the purchaser of services, you cannot agree on supply terms and decide to go to another supplier

who manufactures the improved motor for you. You begin selling the new powered curtains, including the improved motor, with great success. Two years later, the original supplier discovers your

success and sends you a letter claiming that you are infringing patents based on applications they filed covering the improvements that you paid to develop, and also pre-existing patents covering the original motor.

Damage done: Unfortunately, just because you paid for these development services does not mean that you have any rights to the underlying patent rights

Technology Development



covering the improved technology or background technology related to their original motor. The developer has no obligations to you beyond those created by a separate contract and the obligations outlined in the confidentiality agreement. The developer's patents may prevent you from commercializing your new powered curtains without paying damages for past sales and royalties for future sales.

Preventative solution: Before the potential supplier renders any services, you must insist on the need for a written agreement, such as a consulting agreement or a development agreement, defining your relationship as purchaser and developer. Moreover, such an agreement must include provisions dealing with the pre-existing "background technology" and corresponding "background IP/patents" owned by the developer, and a well-defined "development project" along with any newly developed "project technology" that might be covered by corresponding "project IP/patents" created during the course of the development project (*see* figure below).

Referring to the figure in the context of our example, the purchaser was likely attracted to the developer's background technology—embodied in the original motor—and hoped to use a confidentiality agreement to entice the developer into creating an improved version. This scenario did not account for the developer's existing background technology and background IP/patents, though. As soon as the developer

expresses interest in developing the improved motor, they should enter a development agreement that defines the project and whether the purchaser will participate in the development (joint technology).

Careful attention should be given to the role of each party because the development project will result in three buckets of new technology, including: the project technology independently developed by the developer; the project technology independently developed by the purchaser; and any project technology jointly developed by the parties. Each bucket may be the basis for creating corresponding project IP/patents as indicated by the orange diamond shape boxes in the figure.

The development agreement must address the ownership and/or licensing issues associated with all three types of project IP/patents along with the developer's background IP/patents. For example, instead of the purchaser demanding that the developer assign all of the project IP/patents, the purchaser might do just as well with an exclusive license for the powered curtain field and leaving the rest to the developer to license to others outside that market.

Of course, there are many other important provisions that need to be addressed in a development agreement. These provisions include:

- Authorization to file patent applications covering the developer's project technology.

- Agreement to sign documents and take action to secure and enforce the purchaser's project IP/patent.
- A power of attorney for the purchaser to execute all necessary documents if the developer is unavailable or unwilling to do so.
- Noncompete provisions and restrictions on consultation for competitors.
- Nonsolicitation of each parties' employees.
- Other standard contractual provisions such as remedies for breach of contract, indemnification, selection of applicable law, etc.

Takeaways

No matter how big or small your company, the issues, risks, and opportunities are always the same and need to be dealt with in a comprehensive development or consulting agreement to ensure that you are in the best position to commercialize your new technology without interruption.

Gerald Welch is a Principal in the Frisco, Texas office of Harness Dickey. He has more than 35 years of experience as a patent lawyer advising companies on the best strategies to grow, protect, and monetize their IP assets. Clients around the globe appreciate his straightforward approach to establishing business goals and delivering results on time and within budget.