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Today, I will not discuss with you all the details of a software licensing agreement. This cannot be the aim of the limited time I was given to address to.

I do think that the basic structure of a licensing agreement can be considered to be familiar to all of you.

Someone, in principle the owner, gives someone else limited user rights on his software. There is no transfer of ownership rights and the rights that the licensee is granted should be very strictly defined.

The rights will be limited in many different ways:

- the duration of the rights granted (rather a long term than "for ever, undetermined" etc.)
- the use that can be made of the software (distribution or in production, only on limited number of seats etc.)
- markets (clear definition if geographic market and product market).

This scheme is completed by a compensation for the licenser, which will in may cases be based on a royalty payment. Said royalty should, if possible, be based on a turnover rather than on any form of profit.

I would prefer not to go into more detail on these basics but I would like to look into some specific pitfalls that anybody dealing with licensing deals, whether as a legal advisor or from a commercial or technical point of view, should keep in mind while negotiating.

There are four topics that, based on my experience, are not always discussed in sufficient details or for which the proposed solution is not always legally sound or sufficient.

- the rights of the licenser
- modified circumstances and its influence on the contractual dispositions, i.e. the royalty payments
- the rights regarding the source code
- some legal obligations regarding the formalities of the licensing contract
- some aspects of the liability of the parties involved

1. The Ownership Rights of the Licenser

It may seem al too obvious but I do not think that it should not be forgotten: the Licenser must have sufficient rights to the software to be able to grant the licensee the user rights he is entitled to.

If the licenser has acted "ultra vires" he would of course be liable to pay damages to the licensee but it is certainly advisable to avoid this situation.

Fortunately, since the introduction of the specific legislation on software protection, this situation has become much more clear-cut.

The risk that e.g. an employee claims property rights on software that he has developed for his employer has become almost non-existent because the European Directive of 14 May 1991, that was the basis for the European national legislations, has introduced the rule that the employer is the owner, unless otherwise agreed upon in the employment contract. Before that, under the "Ancien régime" this rule did not exist and we have seen court decisions whereby e.g. the IPR on software was returned to the former employee of a company that was declared bankrupt and the trustee could not sell the software.

But there remain sources for possible conflicts. I'll give a few examples:

- although there exists a presumption that the employee has transferred his rights to his employer this presumption is only valid for the software and not for e.g. the related manuals;
- make sure that all authors transfer their rights; it is not sufficient to have the agreement of one co-owner or one co-author. The principle, both for the copyright legislation as for the patent law, is that no co-owner can exploit his rights without the agreement of the other co-owners. However, the co-owners can agree differently.
- if the programme has been developed by the licenser for the order of a third party, this licenser must have received the explicit agreement in writing of this third party. This may be extremely relevant for agreements where universities are licensers but also more and more for licensing in the field of multi-media. Finding all the holders of relevant IPR for the production of a multimedia work can be the most difficult part of the whole development work.
- also for agreements with university-licensers: check whether the development has not been funded by a national or international authority who has imposed its rules regarding IPR. The university, or any other party involved in these programmes may be the owner but may e.g. not be entitled to grant exclusive user rights.

2. Change in the IPR-situation of the Licenser and the Influence on the Contractual Obligations of the Licenser

"The contract is the law of the parties " is the basis of our contract law. Each party will therefore have to fulfil all his contractual obligations.

If a party cannot invoke force majeure, and under our legal system this has not to be foreseen explicitly in the agreement, this party will be liable if it has not been able to fulfil its obligations.

Moreover, the other party will have the right to invoke the non-fulfilment of its partner’s obligations if this partners would still require the execution of the whole contract.

If we combine this principle with another basic principle of our contract law, namely the obligation for the party granting rights to another party to guarantee that this other party will be able to enjoy the granted rights freely, we arrive at some interesting conclusions regarding licensing agreements.

Just has the landlord has to ensure that his tenant can live in the rented house; the licenser has to ensure that the licensee can execute the user rights that were granted to him. If he is no longer able to do this, the licenser will no longer be entitled to receive payments from the licensee.
Once again, this has not to be included in the agreement: this is a protection for the licensee that is included in the relevant (Belgian) legislation.

We could discuss several situations where this problem may occur.

If a patent that is the basis for the licensing agreement becomes void, the license agreement will also become void. The licenser will of course no longer be entitled to receive payments from the licensee. Article 50 of the Belgian Patent Law foresees that this will only apply for future payments and that repayment of payments received before can only be claimed if this claim is accepted as reasonable by the competent court.

It seems to me that a similar reasoning could be applied to copyright licences or know-how licences if the know how has fallen in the public domain.

In all these cases the court will decide on any claim for reimbursement of paid royalties taking into account the benefits received by the licensee.

Payments of royalties after the term of the patent are not legal (also clearly accepted under European Competition legislation)

But what if, for an exclusive licence, the licenser can no longer guarantee the exclusivity thereof? This will not lead automatically to the nullity of the agreement. The licensee will still be entitled to use the licensed technology but no longer on an exclusivity basis.

If the licensee is no longer interested in a non-exclusive license he will have to convince the court before whom the dissolution of the license agreement will have to be requested that the exclusivity was an essential part of the contractual relationship between him and the licenser. He will have to proof that the non-exclusive licence will not allow him to continue a successful commercial activity.

An adaptation of the royalties will normally be granted quite easily in these circumstances. It should be noted that this rule of the contract law will only apply if the loss of exclusivity is attributable to acts or omissions of the licenser.

Taken into account was said earlier it may, from the point of view of the licenser, be a good idea to make a distinction between different types of royalty payments.

If, in more important licensing schemes, a license is granted on e.g. a patent and related (not-patented) know-how and the licenser also grants consulting services for the implementation of the technology at the premises of the licensee, I should advise not to have one overall royalty payment as a compensation for the whole.

If the patent is declared void, the licenser will have to proof that only part of this overall royalty compensation was due for the patent in order to avoid the loss of all his rights.

This proof will be much easier if a distinction was made beforehand.

3. The Warranties of the Licenser

In each type of agreement the division of the warranty obligations is one of the most difficult items to be addressed and licensing agreements are no exemption to this. Warranties should be thought over carefully and no party should take up any obligation without having evaluated the possible consequences thereof. These consequences can be very onerous: the stories about product liability processes have become the most popular horror stories in many board rooms with stories about the costs of defending patents a close second.

There are indeed two types of warranty that are important in a licensing agreement. A licensee will want to be certain of the value of the technology offered by the licenser whereas a warranty for the quality of the products produced by the licensee should also be looked at. For each of these warranties a balance between the often very different positions of licenser and licensee will have to be found.

First the warranty for the technology offered. If such technology is patented this question is related to the value of the patent. The licensee will ask a warranty that the patent is valid or, if only a patent application has been filed, that the patent will be granted. This implies that the licenser will i.a. ensure that the patent remains in force by paying the annual renewal fee. But the licensee may also request that the conditions of the licensing agreement are modified once a patent becomes invalid or if a patent is not granted. Those two elements can normally be accepted by the licenser.

However, a licenser should be cautious when requested to act against all third parties who are infringing his property rights or defend alone these rights against third parties alleging that they are infringing these third parties' rights. The costs of these procedures can be extremely high and the licenser should only accept to bear these costs if the profits he can earn by entering the licensing agreement are sufficiently important. If exclusive licences for great markets are granted the licensee can be requested to bear part of these costs. The gains made by the licensee will be much more important than the gains of the licenser and the risk should therefore be divided between them. But once more, the specific licensing situation should be taken into account to find the best solution.

If such a solution is found the following text could be taken as a basis for the final draft:

If during the life of this agreement the licenser shall become aware whether by notification or otherwise of any infringement or attempted infringement of said patents the licenser shall notify the licensee within three months whether or not he intends to initiate proceedings to prevent infringement.

If the licenser notifies the licensee that it does not intend to do so or fails to give any notification whatsoever within the said period of three months the licensee may if he so desires take such proceedings to prevent such infringement or to defend the validity of the said patent as seems expedient to it and shall keep the licenser fully informed.

If the licensee takes any such proceedings as aforesaid the licenser shall render all assistance in its power to the licensee in connection therewith.

All costs and expenses in respect of such proceedings in so far as such costs and expenses relate to the infringement shall be borne by the licensee and in so far as they relate to the validity of the said patent shall be borne by the licenser.
Any such costs and expenses that cannot be apportioned in the aforesaid manner shall be borne equally by the parties hereto.

The second warranty is the warranty for the products sold by licensee. If the licensed technology is not sub-licensed by the licensee but will be used in the production process of the licensee to improve its efficiency, the licenser will normally not be responsible for the end products produced by the licensee. The following clause can then be introduced in the licence:

The licenser does not warrant that the licensed technology is capable of industrial realisation or commercial exploitation. The risks of such realisation and exploitation shall be assumed solely by the licensee.

The licensee agrees that the licenser shall not be held to any liability and shall indemnify the licenser with respect to any claim arising from or on account of licensee's use of the licensed technology. Licensee will therefore also be solely liable for the products produced with the licensed technology and will be solely liable for any obligation related to the producing or selling of these products.

The clause puts all the liability for the use of the licensed technology with the licensee. This includes the warranties he will give to his customers and the liability based on the product liability legislation.

If the licenser licenses a specific product that is produced and sold by the licensee, and the distribution of software is an example thereof, a more balanced division of the liabilities will be included in the licensing agreement.

One more important note regarding software: the product liability legislation, which introduces the responsibility without fault of anybody who is putting a product on the market, will also apply to software.

It is useful to discuss these matters during your negotiations whereby it should be taken into account that the developer and distributor of software are, within certain limits, free to make a division of this responsibility between them.

4. Formal Conditions for a valid Licensing Agreement

These conditions are very limited but are worth mentioning them.

The Belgian Patent law foresees the obligation to register a licence. It goes without saying that the parties will have to pay for this registration. The sanction is the non-opposability towards third parties. This would in principle also include the trustee of the bankruptcy if the licenser is declared bankrupt

Moreover, the same law foresees that a licence should be in writing.

We find no similar obligation in the legislation concerning the software protection. A software licence should be in writing, but only if the original "author" is a party thereto. Only the transfer of the rights of the "author" by himself must be in writing. Such an agreement will have to indicate the ways in ways the software will be exploited, excluding any still unknown ways of exploiting software and have to have a limited duration.

Further contracts do not have to fulfil these obligations but one should keep in mind that nobody can transfer rights he has not received and further licences will be limited by the content of this initial contract.

As said earlier this does not include the manuals and other related materials. Therefor a much stricter rule, the formal rules laid down in the general Belgian Copyright Law will apply.

5. Source Code

As a last item I would like to give you two elements to keep in mind when discussing the rights to be granted to the licensee on the source code of the licensed software.

Let me first give you the following basic advice: if you need, as a licensee, the source code you should try to make sure that this is explicitly and directly foreseen in the licensing agreement. The "indirect" ways of getting access thereto have some setbacks.

First, I do not think that anybody can claim rights on the source code of the licensed software. Although the licensee gets the right to start a reverse engineering job, it will be a do-it-yourself task. The licensee will not be in position to invoke this right to impose on his licenser the transfer of the source code.

Secondly, I do not think that, under Belgian legislation, the Escrow agreement will ensure you access to the source code when needed. Even a carefully drafted Escrow Agreements may be opposed by the trustee of the bankruptcy of the licenser. And it is this situation that many have in mind when negotiating an escrow agreement.

It is generally accepted that a trustee is entitled to terminate the agreements entered into prior to the declaration of bankruptcy. This is also true for a licence agreement. The other contract party is entitled to damages, but these damages have to be claimed from the bankruptcy estate. There is no reason to think that an escrow agreement would be an exception to this rule.

It may be more useful to foresee that, at the moment of bankruptcy, the scope of the license agreement would be extended to include the source code whereby the licensee would pay an extra compensation. The odds that this is accepted by the trustee may be better.