

**Morgan Lewis**

# **STARTUP & ACCELERATE**

**Technology Transactions Impact All  
Startups – A Review and Considerations**

**June 8, 2023**

**Doneld Shelkey, Emily Lowe, Jesse Taylor**

# Before we begin

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# Setting the Stage for our Discussion & Agenda

1. Developed Technology and Tools
2. Licensed Technology and Tools
3. Tips for Negotiating (with and without leverage)



# Developed Technology & Tools

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# Due Diligence – Protecting the Client

- 1. Make sure everyone contributing to company's technology is under written agreements for the assignment of IP (otherwise will make financing hard).
  - Employment Agreements
  - Independent Contractor Agreements
  - Developer Agreements
  - Artist Agreements
  - Packaging Services Agreement

# IP Allocation - Assignment

- An assignment is the transfer of intellectual property from one person to the other. Use present tense!
- Is forever.
- The Agreement tells you what you CANNOT do, if anything.
- Generally appropriate for things like “developed technology,” software that Start Up paid to build, or for other deliverables.

# Heads Up!

**Upon Start Up's payment for the Deliverables**, Supplier hereby assigns all Deliverables created in connection with this to Start Up.

# IP Allocation

- Joint Ownership – Not preferred because it has different meanings in different places and other ownership structures can achieve the same results.
- Assignment + License Back – Very common structure when you want to switch whether the Agreement says what you can or cannot do.



# How was the IP created?

- IP Ownership
- AI system cannot be named as an inventor on a patent.
- Unlike US patent law, US copyright law does not have an express requirement of human authorship; however, US courts and the US Copyright Office generally operate on the basis of this requirement and deny registrations of works not created by humans.
- Copyright Office staff as a general guide to policies and procedures such as registration, deposit and recordation—states, “the term ‘authorship’ implies that, for a work to be copyrightable, it must owe its origin to a human being”.
- For example, the metaverse could have virtual creations by avatars and AI aspects built into it. If such creations are deemed to be AI creations and not human creations, they may not be allowed certain types of intellectual property protection.

# Additional Due Diligence in connection with AI

- Not just who created the IP but how it was created and whether Startup has the rights to use such IP.

# ABILITY TO ACCESS

Even if you own it, do you have access to your IP?

# Licensed Technology & Tools

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# License Grants for Software – Key Questions

- Who will need to use the software?
- What software is being licensed?
- When will the license grant end? Is this a term-based license or perpetual?
- Where and how will the software be used?

# Scope of License – Who will need to use the software?

- Licensee should be defined broadly (for the purposes of the license grant only) to include affiliates, subsidiaries and divisions.
- Must address third party rights; include the right to allow third party service providers to use, access and possibly install the software at their own facilities for:
  - Disaster Recovery
  - Staff Augmentation
  - Outsourcing
- Any other third party use?
  - Customers?

# Scope of License – What software is being licensed?

- License grant should be to the software and documentation.
- Software should be defined broadly to include bug fixes, patches, enhancements etc., provided under a support agreement (if available).
- Consider whether the license should include a right to source code. If not, consider whether the source code be placed in escrow. These are usually difficult to obtain.

# Scope of License – When will the license grant end?

- Perpetual v. term of years:
  - Term of years matched to term of support and maintenance term.
  - Hosted solutions, SaaS products, etc., usually have a term of years.
  - Perpetual licenses – how useful will these licenses be if you stop paying for support and maintenance services?



# Scope of License – Where will the software be used?

- Worldwide?
- Specified territory?
- Specified facility?
- Specified equipment?

# Scope of License – How will the software be used?

- Exclusive v. non-exclusive:
  - Exclusive in a certain territory, field or type of distribution or customer?
- If the license is limited to use on certain equipment, need the right to change the equipment.
- If the license is limited to a number of users, should specify whether it or concurrent or named user license.
  - Right to name successor users, if named user license.

# Scope of License – How will the software be used?

- Consider whether license to use, install and access software is sufficient or does the license include the right to modify, create derivative works.
  - Ownership of derivative works?
- Need to include the right to make copies for archival, back-up purposes.
  - “Backup Activities” shall mean the back up activities of Licensee, including but not limited to business continuity, disaster recovery, archival and other related activities.
  - “Licensee Secondary Environments” shall mean certain back up environments at one or more sites, whether currently established or established in the future, that may be located at sites owned or leased by Licensee or its third party providers.

# Scope of License – Example of License Grant

- Licenser hereby grants to Licensee and its Affiliates, a paid up, perpetual, nonexclusive, irrevocable, world wide right and license to install, copy, access, use, modify and create derivative works of the Licensed Software and Licensed Documentation.

# Other Considerations

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# Random Stuff!

- Limitations of Liability
- Indemnity
- Termination
- Warranties
- Red Flags

# Limitations of Liability

1. Standard to have no consequential damages, etc. and a hard cap at 12 months fees under the Agreement.
2. Standard carve outs are third party indemnities, breaches of confidentiality, and gross negligence and willful misconduct (sometimes)
3. LOLs generally help provider. Carve outs generally help recipient.
4. Supercaps!



# Indemnity

1. Third party claims. If you miss this, it's really,
  - really bad. Third...party...claims.
- 2. IP Infringement, gross negligence and willful misconduct generally market in most circumstances.
- 3. Anything else is really deal specific. Examples?
- 4. Does Start Up have special indemnity guidelines we want to discuss?



# Termination

- 1. Make sure neither party is backing into an
  - agreement that has no end.
- 2. Consider adding a termination for
  - convenience upon 90 (or less) days' written
  - notice.
- 3. Deals over 3 years, heighten the level of review.
- 4. Make sure the survival clause doesn't jam you.



# Warranties

- 1. If you get the right LOL, a termination,
  - and indemnities limited to third party claims, these are
  - less risky than if you don't get those things.
- 2. Standard warranties are compliance with laws,
  - product conformity to specifications, services rendered
  - in a professional and workmanlike manner.
- 3. If the provider, add the standard all caps disclaimers for
  - UCC warranties (merchantability, fitness for a particular
  - purpose). Generally OK even if recipient.
- 4. SOS if there are tons of other warranties or if you don't
  - know what certain warranties mean.



## Other Red Flags

1. Exclusivity.
2. Minimum Guarantees.
3. Deals over 3 years.
4. Exchange of Personally Identifiable Information .
5. Deals concerning kids.



# Biography



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Emily R. Lowe represents clients in commercial transactions, with a focus on the acquisition, use, protection, development, and commercialization of technology and biotechnology. Emily helps domestic and international companies commercialize their products through various commercial vehicles, including manufacturing and supply agreements and distribution strategies, and development and licensing agreements.

Additionally, Emily assists clients in marketing their products and services online and through joint marketing agreements, sales representative agreements, and distribution agreements. She focuses on the software, specialized manufacturing, consumer products and retail industries. Emily also has experience in licensing software and providing services to sports teams and sports leagues.

Emily is on the Board of Directors of Ronald McDonald House Charities of Pittsburgh.

# Biography



## **Doneld G. Shelkey**

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Doneld G. Shelkey represents clients in global outsourcing, commercial contracts, and licensing matters, with a particular focus on the e-commerce and electronics entertainment industries. Doneld assists in the negotiation of commercial transactions for domestic and international manufacturers, technology innovators, and retailers, and counsels clients in the e-commerce and electronics entertainment industries on consumer licensing and virtual property matters.

Doneld regularly assists clients in a wide spectrum of technology and data acquisition, implementation, and service agreements, including enterprise resource planning (ERP) implementation, licensing, software as a service (SaaS), information as a service (IaaS), data acquisition and services, cloud computing, and mobility agreements. He has particular experience in the alternative energy, specialized manufacturing, and consumer products industries, both in the United States and abroad.

Doneld also has a background in the electronics entertainment industry; with a particular focus on consumer licensing and virtual property matters. He has assisted both developers and publishers in the electronics entertainment industry at all stages of development and has assisted clients in such matters in the United States, Japan, and South Korea.

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Jesse Ryan Taylor represents clients in global outsourcing, commercial contracts, and technology matters. As part of his practice, Jesse drafts and negotiates a broad range of agreements including software licensing (cloud and on-premises), implementation and professional services, IT security, strategic alliances, and data privacy.

Before joining Morgan Lewis, Jesse was Legal Counsel to a multinational energy management and automation corporation where he supported the drafting and negotiation of agreements for the global IT and North American supply chain divisions.

When in law school, Jesse interned at the criminal division of the United States Attorney's Office in San Francisco, California, and at the United States District Court, District of Massachusetts for Magistrate Judge Jennifer C. Boal.

# Upcoming Webinars

## Digital Health Transactions

June 14, 2023 | 12:00 – 1:00 PM ET

Speakers: Don Shelkey and A.  
Benjamin Klaber

## Lessons from the Blog: AI Developments and Contracting Pointers

June 26, 2023 | 11:00 AM – 12:00 PM ET

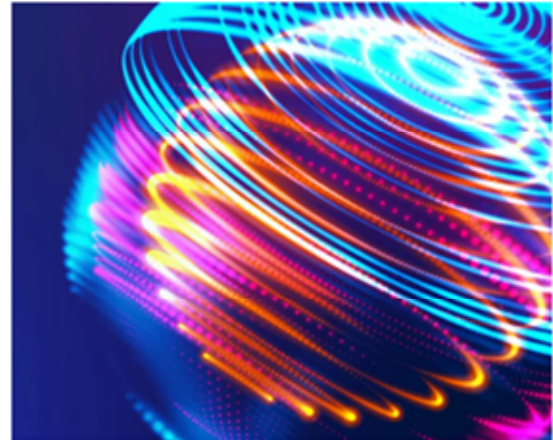
Speakers: Mike Pierides and Peter  
Watt-Morse



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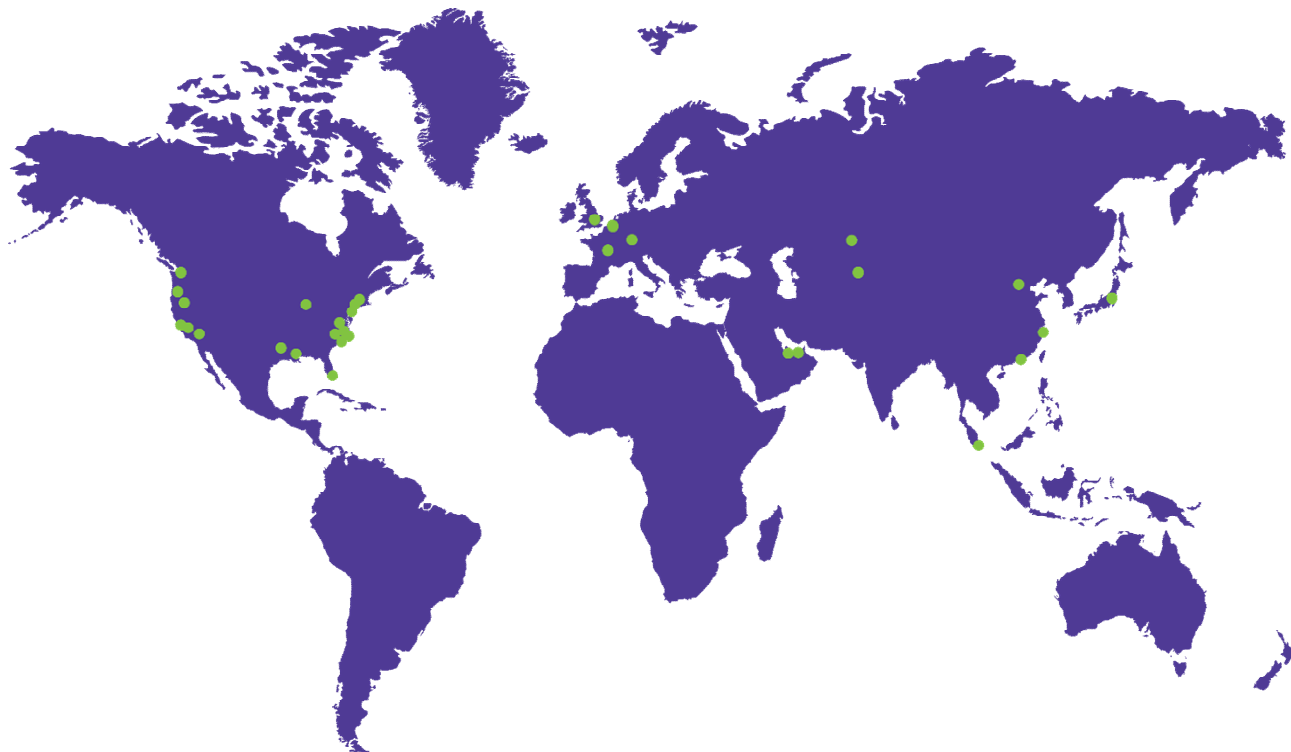


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