

THE LAW OF ALGAE
—Algae Technology Issues; Licensing Algae Technology—

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A wide variety of technologies are being developed in the nascent algae biofuels industry. Developers are exploring basic approaches such as open ponds, photobioreactors, dark fermentation, and genetic modification of algae. Production-oriented processes and techniques, such as methods for optimizing algae growth, harvesting algae, extracting oil from algae, and producing biodiesel or ethanol, are being developed. Some of these technologies will emerge over time as winners in the race to economically produce algae biofuels. The developers of those successful technologies will want to maximize their return, and that's when technology licensing comes in.

Licensing is a way to exploit technology. The party that has developed the technology (the "Licensor") may be able to leverage its return on its technology by licensing it to another (the "Licensee"). The Licensee may have more capital and more broad industry expertise, and may be better able to put that technology to use quickly and to pay substantial fees back to the Licensor. At the same time, the Licensor can tailor individual licenses to limit and control how each Licensee puts that technology to use.

The benefits of a technology license to a Licensee can be immediate and dramatic. By acquiring a license of existing technology, the Licensee can avoid the delays, risks, and costs inherent in in-house development. A "develop or license" analysis is much like a "build or buy" analysis—in many cases acquiring a license will be an easy decision. In some cases there may be no choice. For example, if the technology is protected by patents, independent development will not avoid the need to acquire a license of the relevant patents.

For both the Licensor and the Licensee, a license is typically a revenue-generating strategy. And for both the Licensor and the Licensee, a license is often the best solution to what would otherwise be a timing problem. A license may provide immediate cash to the Licensor and provide immediately available technology to the Licensee.

I. What Is a License? A license is an agreement between the Licensor and the Licensee. The essence of a technology license is that the Licensor permits the Licensee to use technology that it otherwise could not legally use. It amounts to a promise from the Licensor not to sue for what would otherwise be an infringement of the Licensor's legal rights.

A technology license presupposes that the Licensor has some enforceable intellectual property rights. Technology licensing can apply to patents, copyrights, trade secrets, and trademarks. The two legal rights that are most relevant in the biofuels world are patents and trade secrets.

Licenses don't transfer ownership of the technology, so the Licensor may impose conditions and limits on the Licensee's ongoing use of the technology. Licenses are usually not free; normally the Licensee must pay something, either an initial fee or some sort of ongoing royalty. The Licensee will often be restricted in what it can do with the technology. Most licenses are not totally irrevocable; the Licensor will usually retain the right to terminate the license if the Licensee does not live up to the agreement.

Technology licensing is widespread in the ethanol and biodiesel segments of the biofuels industry. It is expected that the same pattern will develop in the algae biofuels industry and that technology licenses will become widely used as the algae biofuels industry develops.

II. License Terms. Licenses are contracts that business people negotiate, so their terms are as variable as the imaginations of the parties. Nonetheless, technology licenses normally have at least the following main components:

- Grant of rights
- Fees
- Limits and conditions
- Promises by the Licensor

A. Granting Clause. The granting clause is the heart of the license because it describes the rights granted to the Licensee and the scope of those rights. For example, a typical patent license to a product manufacturer might grant

“an exclusive, royalty-bearing license, with the right to sublicense during the term of exclusivity, under the *Licensed Patents* and *Technical Information*, to import, make, have made, use, sell, offer for sale, and have sold *Licensed Products* and *Combination Products* in the *Territory* in the applicable *Field of Use*.”

(The italicized terms both help define the license grant and limit the scope of the right.) The granting clause in a license from a provider of engineering and design services for an algae biodiesel plant would likely be more limited, perhaps covering only

“a nonexclusive, perpetual license to use the *Licensed Patents* and *Technical Information*, without the right to sublicense such rights to others, for the following purposes: construction of the *Plant*; operation of the *Plant*; maintenance, modification, and optimization or enhancement of the *Plant*; and selling or otherwise transferring worldwide all products of the *Plant*.”

This type of technology license limits use of the technology to one particular plant at one location.

B. Fees. Technology license fees come in many varieties. They can be up-front one-time payments, deferred payments, usage-based royalties, milestone-based payments, or various combinations. Sometimes an up-front fee will be treated as an advance on royalties that will accrue later, when products covered by the licenses are sold. Some types of licenses are essentially a sale, for a fixed price, of a bundle of license rights. This would still be a license, but with no further payments. License fees are usually negotiated on a case-by-case basis.

Royalties, if required by the license, will be paid based on sales of products that use the technology or on sales of products manufactured using a licensed process. They may be based on volumes, such as gallons of biodiesel refined in the plant, or on other metrics, depending on the circumstances. Royalties are often preferred because they are self-adjusting, *i.e.*, the more the Licensee uses the technology, the more the Licensee pays.

Royalties may have minimums associated with them, typically with adverse consequences to the Licensee if the minimums are not met. For example, an exclusive license agreement may provide that if certain royalty minimums are not met, the license will shift from being exclusive to nonexclusive. This approach is used to

protect the Licensor from being saddled with an exclusive license that does not generate the expected royalties, with no way for the Licensor to terminate the contract.

Audit rights should always be included in any license agreement that calls for royalties. Typical issues are how frequently an audit can be conducted, who will conduct it, whether the results will be confidential, and who will pay for it. Usually the Licensor will bear the cost of the audit, but if a significant discrepancy is found, with underpaid royalties, then the cost would be covered by the Licensee.

C. Limits and Conditions. Technology licenses always impose limits on how the Licensee can use the technology and often impose various other conditions and requirements (in addition to fees).

1. **Exclusivity or Nonexclusivity.** Exclusivity or nonexclusivity must be defined carefully. For example, does an exclusive license in a particular field of use mean that the Licensor will grant no other licenses in that field of use but may itself use the technology in that field of use, or does it mean that both third parties and the Licensor are precluded from using the technology?

2. **Field of Use.** The license could be limited to a particular market, a particular type of plant, or a specified territory. For example, a license to the owner of an algae biofuels plant might only allow the Licensee to use the technology at the particular plant and could require an additional license to expand the plant beyond the specified nameplate capacity.

3. **Improvements.** If the Licensee improves the technology during the life of the license, the Licensee will not usually be required to provide improvements back to the Licensor if the license is nonexclusive. After all, the Licensor could then in turn license those improvements to the Licensee's competitors. But if the license is exclusive, the Licensor may insist on a grant back to it of any improvements, so that if the Licensee fails to adequately commercialize the technology, at least the Licensor will not have lost all of the development time.

4. **Confidentiality.** Most algae biofuels technology licenses are likely either to be trade secret licenses or, if they are patent licenses, to include a large trade secret component associated with the patented invention. Because of this, confidentiality clauses play a large role in algae biofuels technology licenses. The Licensee will be precluded from disclosing the technology to third parties or from using the information for purposes other than as allowed by the license.

- Because the algae biofuels industry is in its early stages and because people move around, the Licensor may also insist on strict limits against disclosing the information to consultants or vendors that the Licensee might otherwise hire to make improvements or modifications to the plant.
- Most confidentiality restrictions will provide for exceptions for information that is part of or becomes part of the public domain, information legally received from third parties, and information independently developed by the receiving party (by personnel with no access to the confidential information).

5. **Term of License.** The duration of a patent license is usually either for a fixed term of years or until the patent expires. If the license is for multiple patents, the term will usually be until the last one expires. It is not legal to require that royalties be paid after the patent expires.

- With a trade secret, the license term and the royalties can be perpetual.
- If the license covers both patents and trade secrets, the royalties should be allocated between those for the patent and those for the trade secrets. Then when the patent expires, the trade secret royalties can continue.

6. **License Termination.** Licensees need to be able to rely on the continuation of the license, but Licensors need the ability to ensure compliance with the license. In most cases the Licensor will have the right to terminate the license if there is a breach by the Licensee, but only after giving the Licensee notice of the breach and a chance to cure the problem to avoid termination.

- In some technology licenses, the Licensor will not have the right to terminate the license even if there is a breach. This can happen in trade secret licenses when the Licensee is relying heavily on the license (such as by building a large algae biofuels plant) and when the fees are paid up front.
- If the license is truly nonterminable on breach, it should be explicit that the Licensor still has its other remedies available, such as an injunction and damages.

D. **The Licensor's Obligations.** A Licensee will usually need some assurances from the Licensor. Because the Licensee is paying for the license to avoid infringement claims, the Licensee may ask the Licensor for a warranty that the licensed technology does not infringe any other party's rights, at least to the Licensor's best knowledge.

The Licensee may seek a warranty as to the functional capability of the licensed technology. In many cases, especially if the license is for patent rights, the Licensor will insist that the Licensee make its own determination about the utility of the patented invention. That's more feasible with patents than with trade secrets because the patent itself, including its enabling disclosure, is publicly available.

Many technology licenses will include indemnifications that allocate risk between the parties. Frequently the Licensor will be required to defend and indemnify the Licensee from and against any third-party claims that the Licensee's use of the licensed technology infringes the third party's patents. Under such an indemnity, the Licensor must defend the Licensee against the third party's claim and pay the litigation costs even if the claim does not stand up in court.

The Licensor in trade secret licenses will usually be required to provide some enabling disclosure of the know-how. This may involve combinations of documentation, formal training, or hands-on involvement and tutoring in the construction and initial operation of a plant.

III. **The Good License.** What are the characteristics of a good technology license? There are two:

- A license reflects a business deal, so it must satisfy your business objectives. That doesn't mean that there will not be compromises, because there always are.
- The license must provide enforceable rights. If you have to sue, you want the contract to be enforced in court the way it was intended. The contract should be clear and complete and should comply with law.