

Case Study: Panobot Technology and Associated TradeMark/Service Mark

Introduction

The Company:

Panobot (fictional name) was established in 2008 as result of a successful collaboration between researchers within a U.S. Federal agency and the university that developed the Panobot System for creating high-resolution panoramic images. Panobot was founded as a university spin-off to bring the powerful, high-resolution imaging capability to a broad audience.

The Technology:

The Panobot System (fictional name) allows experienced and novice photographers to easily create high-resolution panorama images. The Panobot System was the first system to provide everything needed to take high-resolution panoramic images in a single system: the robotic Panobot imager attachment for most digital cameras; the Panobot stitcher software that automatically combines the thousands of images taken into a single panoramic image, and the Panobot viewer (located on a website) that enables the mega-high resolution viewing experience.

The Panobot System was originally used as part of a community exchange research and educational project, which aimed to connect communities and people around the world through images. Many of these images were available for viewing online with the Panobot viewer, at the Panobot community sharing website, so that both experienced and novice photographers could share their high resolution images with others. For example, for students and researchers, it was believed that Panobot images were a great way to present high-impact, visual information. It was also believed that Panobot images could also have tremendous benefits for business. For example, in tourism and real estate, companies could use beautiful Panobot™ images of their locations to allow customers to explore them online.

History:

The technology was developed in 2007. The research project that resulted in the development of the technology was funded by foundations, corporate gifts and an individual benefactor. The university was approached by the inventors and the individual benefactor with an interest in spinning off a new company to commercialize the technology. Prior to the founding of the company, the inventors and the individual benefactor had contracted with a third party manufacturer to build prototype Panobot imagers (the robotic hardware component). The inventors provided initial schematics and firmware for the prototypes. During the process of building these prototypes, the third party manufacturer developed additional intellectual property in designs and firmware for the imagers.

As part of the research project, the inventors developed the stitcher software (necessary to piece together the individual photographs into one continuous digital panorama) available for download on the project's community sharing website, under a BSD open source license. The community sharing website also "hosted" all of the stitched panoramic photos, which are quite large, and provided a viewer for other community member and passive visitors to view and manipulate the photos. The viewer could be used on the website but was not available for download. The website was hosted on the university's network. It was important for the company to tap into this website, and, in fact, the company was interested in having some control over the content. In addition, the university had registered a trademark and a service mark associated with the technology with the United States Patent and Trademark Office. No patents were filed.

You are analyzing the above on behalf of the university and preparing to draft a Spin-off License Agreement.

Questions: What are the relevant pieces of intellectual property described above that are needed by the company? What pieces of intellectual property does the university own? What is the relative value of each of the pieces of intellectual property? Given the university's standard spin-off deal, what pieces of university intellectual property should be subject to a royalty and under what circumstances? Are the images themselves considered part of the intellectual property package?

The university offered Panobot its standard Change of Control language as follows:

1.31. **"Change of Control Event"** shall mean (i) a Qualified IPO, (ii) a Qualified Sale, or (iii) an event after which the Shareholders of Licensee other than the Creator-Founders own 50% or more of Licensee.

As part of Panobot's overall strategy, Panobot desired to license the university's technology from the university. Other intellectual property that Panobot required would be purchased and/or assigned to a separate company unaffiliated with Panobot ("NewCo B"). After the university license was complete, Panobot would be merged into NewCo B. Given this strategy, Panobot countered with the following:

1.31. **"Change of Control Event"** shall mean (i) a Qualified IPO, (ii) a Qualified Sale, or (iii) an event after which the Members of Licensee immediately preceding such event own less than 50% of Licensee or the applicable surviving entity (excluding the purchase of securities directly from Licensee), including without limitation, the contemplated transaction between Licensee and NewCo B, LLC pursuant to which Licensee will either (a) merge with and into NewCo B, LLC, (b) sell substantially all of its assets to such entity, or (c) enter into any other agreement pursuant to which the existing membership interests of Licensee will be exchanged for the membership interests of NewCo B, LLC (the **"Contemplated Merger"**).

Questions: What is the impact of changing this definition? (Note: refer to the standard Spin-off License Agreement to see where this definition is used) Given the short time frame anticipated for the proposed transaction, is this a good deal for the university?

Panobot also proposed the following change to the university's standard Section 7.1 (Royalties) language [change noted in italics]:

7.1. Royalties payable by Licensee to Carnegie Mellon shall be two percent (2%) of Net Sales. However, no Royalties from Dispositions of Licensed Products by Licensee (but not any of its sublicensees) under this Section shall be due and payable to Carnegie Mellon for a period of three (3) years following the Effective Date or until the closing of a Change of Control Event, whichever may occur sooner. *For the purpose of this Section 7.1 only, Change of Control Event will not include the Contemplated Merger (as defined in Section 1.31 hereof).*

Question: Does this information change any of your previous answers?

Panobot was offered the university's standard broad-based sublicensing language as follows:

2.3. Licensee shall have the right to sublicense the Technology without the right to further sublicense (except to the relevant sublicensee's direct customers in the ordinary course of business and to the extent necessary for the use and practice of the Licensed Products Disposed of by sublicensee to said customers as required to enable such customers to use and practice the Licensed Technology which is the subject of the applicable sublicense) within the Field of Use. Any sublicenses granted by Licensee to any person or entity, other than customers in the ordinary course of business to the extent necessary for the use and practice of the Licensed Products Disposed of to said sublicense, shall provide that the obligations to Carnegie Mellon under this Agreement are met and will be conditioned upon and subject to the following:

(a) Licensee shall provide to Carnegie Mellon a copy of each such sublicense within thirty (30) days of the date of each such sublicense has been entered into.

(b) Any such sublicense entered into by Licensee shall expressly include the following provisions for the benefit of Carnegie Mellon:

University's standard no warranty and indemnification language

Panobot countered with the following:

2.3. Licensee shall have the right to sublicense the Technology, with the right to further sublicense the Technology in the ordinary course of business. Any sublicenses granted by Licensee to any person or entity, other than customers in the ordinary course of business, shall, to the extent necessary for the use and practice of the Licensed Products Disposed of by sublicensee, provide that the obligations to Carnegie Mellon under this Agreement are met and will be conditioned upon and subject to the following:

(a) Licensee shall provide to Carnegie Mellon a copy of each such sublicense (not in the ordinary course of business) within thirty (30) days of the date of each such sublicense has been entered into.

(b) Any such sublicense entered into by Licensee (not in the ordinary course of business) shall expressly include the following provisions for the benefit of Carnegie Mellon:

University's standard no warranty and indemnification language [not changed]

Questions: What is the effect of Panobot's proposed changes? If Panobot's potential business model includes direct sales to end users and service sales to corporate customers who need access to the technology, does this effect how you should position the sublicensing right? What would your response be to Panobot's proposed changes?

In addition to the technology, Panobot was interested in licensing the trademark and service mark associated with the technology that the university had registered.

In the spin-off context, for an exclusive license, the university's standard deal calls for a 2% royalty on Licensed Products.

Questions: Should the university charge an additional royalty for the trademark and service mark? If so, what royalty would you charge? Given your answers above, what would your proposed royalty rate be for the following products or services provided by Panobot: (a) sale of the robotic camera mount that includes the trademark, (b) sale of the packaged stitcher software that includes the trademark, (c) purchase and download of the stitcher software from the company website, and (d) service charges for hosting and viewing panoramic photographs for a corporate customer?

In the spin-off context, the university typically requires the following shareholder/owner rights, which were included in the initial draft of the Panobot license:

5.2. Prior to a Qualified IPO or a Qualified Sale, Carnegie Mellon shall have preemptive rights with respect to additional issuances of equity securities (or securities convertible or exchangeable into equity securities) ("**Equity Securities**"), including without limitation issuances of Equity Securities to Licensee employees in exchange for cash, the effect of which will be that Carnegie Mellon shall have the right to subscribe for additional Equity Securities so as to maintain its _____ percent (___%) equity interest without dilution or diminution. If additional Equity Securities are issued in conjunction with a merger or acquisition, in order for Carnegie Mellon to exercise its preemptive rights, the valuation of those securities will be made by an independent third party, agreed to in advance by both parties (if no independent third party can be agreed upon by both parties then by dispute resolution pursuant to Section _____.) The independent third party valuation (or dispute resolution) will be considered final.

5.3. In any public offering of securities conducted by Licensee, which includes Shares held by Shareholders [or Units held by Members], Carnegie Mellon shall be entitled to participate on a pro rata basis to the same extent as such selling Shareholders [or Members] (or any permitted transferee of such selling Shareholders [or Members]) and on terms and conditions no less favorable to Carnegie Mellon than those provided to such selling Shareholders [or Members] (or such permitted transferee).

5.4. Carnegie Mellon shall have the right of co-sale such that, if another Shareholder [or Member] desires to sell all or any part of such Shareholder's [or Member's] common stock [or Units], now owned or hereinafter acquired, and Licensee does not exercise in full a right of first refusal to acquire such stock [or Units], any such sale of common stock [or Units] will be subject to the following rights of co-sale. Carnegie Mellon shall have the right to sell to the purchaser of the stock [or Units], on the same terms and conditions, an amount of Shares [or Units] equal to the number of Shares of common stock [or Units] (including Shares of common stock [or Units] into which each of the Shareholders [or Members] may convert any other stock [or Units]) then owned by Carnegie Mellon equal to (i) the percentage ownership of Carnegie Mellon in the common stock [or Units] of Licensee (including Shares of common stock [or Units] into which each of the Shareholders [or Members] may convert any other securities convertible into common stock [or Units]) times the number of Shares [or Units] to be sold or (ii) at the option of Carnegie Mellon, a lesser number of Shares [or Units] ("**Co-Sale Right**"). The effect of this Co-Sale Right will be to equate, on a percentage ownership basis, the number of Shares [or Units] sold by the selling Shareholder [or Member] and each of the other Shareholders [Members], which may prevent the selling Shareholder [or Member] from selling the number of Shares [or Units] which such Shareholder [or Member] originally intended to sell. Notwithstanding the foregoing, the provisions of this Section 5.4 shall not apply to any sale by a Shareholder [or Member] in an underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended.

Panobot countered with the following:

5.2. In any public offering of securities conducted by Licensee, which includes Units held by Members, Carnegie Mellon shall be entitled to participate on a pro rata basis to the same extent as such selling Members (or any permitted transferee of such selling Members) and on terms and conditions no less favorable to Carnegie Mellon than those provided to such selling Members (or such permitted transferee).

5.3. Carnegie Mellon shall have the right of co-sale such that, if another Creator-Founder desires to sell all or any part of his or its membership interests, now owned or hereinafter acquired, and Licensee does not exercise in full a right of first refusal to acquire such stock, any such sale of membership interests will be subject to the following rights of co-sale. Carnegie Mellon shall have the right to sell to the purchaser of the stock, on the same terms and conditions, an amount of Units equal to the number of Units of membership interests (including Units of membership interests into which each of the Members may convert any other stock) then owned by Carnegie Mellon equal to (i) the percentage ownership of Carnegie Mellon in the membership interests of Licensee (including Units of membership interests into which each of the Members may convert any other securities convertible into membership interests) times the number of Units to be sold or (ii) at the option of Carnegie Mellon, a lesser number of Units ("**Co-Sale Right**"). The effect of this Co-Sale Right will be to equate, on a percentage ownership basis, the number of Units sold by the selling Creator-Founder and the other Creator-Founder, which may prevent the selling Creator-Founder from selling the number of Units which he or it originally intended to sell. Notwithstanding the foregoing, the provisions of this Section 5.4 shall not apply to any sale by a Member in an underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act").

5.4. Simultaneously with the execution of this Agreement, Carnegie Mellon will execute a joinder to that certain Operating Agreement of the Licensee dated as of _____, 20____, in the form attached hereto as Attachment _____.

5.5 Carnegie Mellon warrants and agrees as follows:

(a) Carnegie Mellon represents and warrants that Carnegie Mellon is: (i) an "accredited investor" as that term is defined in Rule 501 under Regulation D of the Securities Act; and (ii) acquiring the Securities (as defined below) for its own account, not as a nominee or agent, and not with a view to the sale or distribution of the Securities. "Securities" means the membership interests and warrant issued to Carnegie Mellon hereunder, together with any stock issued upon execution of such warrant.

(b) Carnegie Mellon understands that the Securities are not registered under the Securities Act, on the ground that the sale provided for in this Agreement and the issuance of the Securities hereunder is exempt from registration under the Securities Act pursuant to Section 4(2) thereof, and that Licensee's reliance on such exemption is predicated in part on the Carnegie Mellon's representations set forth herein.

(c) Carnegie Mellon represents that it is experienced in evaluating and investing in companies such as Licensee, has such knowledge and experience in financial

business matters as to be capable of evaluating the merits and risks of its investment and has the ability to bear the economic risks of its investment. Carnegie Mellon further represents that it has had the opportunity to ask questions of, and receive answers from, the Licensee concerning the Licensee, its business and the Securities, and to obtain additional information (to the extent the Licensee possessed such information or could acquire it without unreasonable effort or expense) necessary to verify the accuracy of any information furnished to it or to which it had access.

(d) Carnegie Mellon agrees that Licensee, if it so desires, may permit transfers of the Securities only when the Securities have been registered under the Securities Act, any applicable state securities law, and any other applicable securities legislation, or when the request for transfer is accompanied by an opinion of counsel, which opinion and the counsel rendering same shall be acceptable to the Licensee, to the effect that the transfer or proposed transfer does not require registration under the Securities Act, any state securities law or any other applicable securities legislation, and Carnegie Mellon agrees that a legend to such effect, if the Licensee so desires, may be placed on the certificates or instruments representing any of the Securities and a stop transfer order may be placed with respect thereto.

Questions: What are the effects of Panobot's changes? If the university accepts Panobot's changes, will the university have retained its typical shareholder/owner rights? Are the representations that Panobot has asked the university to make reasonable?

Panobot has requested incubation (i.e., operating its business) within the university for a period of 1-2 years. The university typically offers incubation to its start-ups for 1% of additional equity per year. In addition, Panobot has requested that the university continue hosting the community sharing website during the incubation period. While the technology comprising the community hosting website has been included as part of the technology to be licensed, the inventors intend to continue to use the website (and associated technology) for university research purposes as well.

Questions: What are the potential issues for the university associated with Panobot's requests? Is it reasonable for the university to continue to host the community website? If yes, for how long? Can you think of any ways in which the university can limit its potential risk if it agrees to do so?