Common Licensing Mistakes

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### Failing to Consider the Intangible Assets Being Licensed

<table>
<thead>
<tr>
<th>Type of IP</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>Patents, patent applications and know-how</td>
<td>Licensee may need rights to other patents to practice the invention; rights are territorial; joint inventor considerations – no duty to account; what about any improvements made and/or patented during the term of the license?</td>
</tr>
<tr>
<td>Trademarks</td>
<td>Rights are territorial; quality control considerations</td>
</tr>
<tr>
<td>Copyrights/Software</td>
<td>Work for hire trap (employee-created v. contractor-created); joint authors – duty to account by joint authors; what rights are being licensed – copy, distribute, perform, display, create derivative works or all of the above</td>
</tr>
<tr>
<td>Rights of Publicity</td>
<td>State law governs; what rights are being licensed – name, image, likeness, voice; post mortem rights</td>
</tr>
<tr>
<td>Trade Secrets</td>
<td>State law governs; duty to implement reasonable measures to protect secrecy of trade secret; confidentiality provisions</td>
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Failing to Define the Grant

- Parties – Who’s allowed to exercise rights?
- Subject matter – What IP is being licensed?
- Rights – What is licensee allowed to do with IP?
- Territory – Where can rights be exercised?
- Exclusivity – Are rights, exclusive, sole, non-exclusive or a hybrid?
- Term – How long can rights be exercised?
- Restrictions – Are rights assignment/sublicensable? Restrictions on licensor?
Failing to Define the Grant (cont.)

• Problems with the license grant can include:
  – Failure to spell out terms of grant
  – Improper grant language
  – Over-granting/under-granting
### Failing to Define the Grant

<table>
<thead>
<tr>
<th>Type of Grant</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusive</td>
<td>Exclusive license grants the rights to the licensee to the exclusion of all others, including the licensor; an exclusive licensee has the contractual right to exclude all others from its particular area of exclusivity</td>
</tr>
<tr>
<td>Sole</td>
<td>Sole license grants rights only to licensee, but NOT to the exclusion of the licensor; sole license prevents the licensor from granting other licenses but do not prevent licensor itself from using the licensed rights</td>
</tr>
<tr>
<td>Non-exclusive</td>
<td>Non-exclusive license grants rights to the licensee, but does not preclude licensor from granting similar licenses to others.</td>
</tr>
<tr>
<td>Hybrid</td>
<td>Exclusive for a period of X years; non-exclusive thereafter</td>
</tr>
</tbody>
</table>

Exclusivity can be broken down by different categories:
- Territory (state, regional or country basis)
- Product type
- Distribution channels (e.g., exclusivity for wholesale sales or distributions via the Internet; certain stores or customers)
Failing to Define the Grant (cont.)

- Other Considerations:
  - Is the grant sublicensable?
    - Open sublicense rights; limited to only parties in privity with licensee; only affiliates of the licensee; only a specified number of third parties; only parties preapproved by the licensor
    - Essential protections for licensor if grant is sublicensable:
      - Notice of sublicense grant
      - Specify terms that must be included in sublicense – or include form sublicense agreement in license and language that sublicense must be “substantially the same terms and in the same form as attached form sublicense agreement”
      - Ability to audit sublicensee
      - Notice if licensee becomes aware that sublicense has breached sublicense agreement
      - Right to enforce sublicense
  - Is the license assignable?
    - Typical presumption that a contract may be assigned by either party unless there is an express prohibition on assignment
    - If prohibiting assignment, does it cover all situations (asset transfer, reorganization, merger, transfer by operation of law)?
    - Particularly important for start ups – need to consider business need for having the right and ability to assign the license.
Failing to Define the Grant (cont.)

- Failure to consider future expansion of use (different product lines; different social media outlets)
- Licensee may wish to seek to address future expansion of the license through the following:

  **Right of First Refusal**
  - Requires the licensor to give the licensee the opportunity to match any proposed terms that the licensor may receive from a third party for licensing the licensed trademarks for the specified uses.

  **Right of First Negotiation**
  - Requires the licensor to negotiate in good faith with the licensee before offering to license the licensed trademarks to third parties for the specified use. The licensor then typically may not offer to third parties more favorable terms than those it offered to the licensee.
Failing to Address Enforcement and Litigation Rights

• Enforcement/Litigation Rights
  – IP rights can be diminished or lost by failure to enforce rights against third-party infringers.
  – Licensor typically retains enforcement rights in licensed IP, it’s not always the case and rights and obligations should be spelled out in license.

• Key Questions:
  – If IP is infringed by a third party, how such infringement will be handled (who will notify; who will file suit; who is in charge of suit; costs borne by licensor or licensee or divided)?
  – If there is a recovery for infringement, how that will be divided between licensor and licensee?
  – Right to settle – by licensor or licensee; by licensor only with consent of licensee; by licensee only with consent of licensor?
Failing to Address Termination Rights and Restrictions

- **Termination rights**: What if the license isn’t working? Do you have an out?

- **Potential Termination triggers**:
  - By Licensor (at specified time; upon breach (right to cure v. no right to cure); failing to meet minimal sales; at any time; licensee challenges the IP or licensor’s ownership of the IP; other)
  - By Licensee (at any time upon X days of written notice; at a specified time; only upon payment of penalty of X dollars; upon breach (right to cure v. no right to cure)
  - General events triggering termination (upon expiration of IP; upon a finding of invalidity of IP (by court, by PTO); upon bankruptcy of either party)
Failing to Address Post-Termination Rights and Restrictions

• Parties should address:
  – Process for licensee to stop or phase out use of licensed rights; removal of trademarks and other licensed IP
  – Allocation of IP rights (revert back to licensor; does licensee retain any rights?)
  – Phase out of use
  – Return of confidential information
  – Treatment of inventory or materials bearing IP (return to licensor; destruction within X days)
  – Cancellation of any licenses recorded in foreign jurisdictions

• Survival:
  – Important that some rights and obligations continue beyond termination of license (e.g., payment of remaining royalties, indemnification and limitations of liability, confidentiality obligation, restrictive or non-competition covenants)

• Consider downstream effect of termination
  – Do sublicenses terminate?
Failing to Consider Ways to Structure the Deal

- **As Licensor**, what do you want out of the license? (revenue, access to data, build brand by entering new market or territory where otherwise don’t have resources, exposure)

- **As Licensee**, what do you need from the licensee? (access to certain technology, brand recognition)

- **Ways to structure the deal:**
  - Royalty free
  - Royalty (percentage of profits; of gross sales; of net sales; specific amount; per unit price; others)
  - Single lump sum payment
  - Milestone payments (what they are and amount owed)

- **Other considerations for the deal structure:**
  - Minimum payments for licensee
  - Tax obligations
  - Report and audit rights
Failing to Impose Duty of Diligence on Licensee

• Diligence is concept that the exclusive licensee will do all it can to operate under the license so that the licensor reaps the monetary benefit of the licensee. If this is NOT addressed, the licensee can sit on technology and preclude others from commercializing the IP.

• Diligence is usually covered by license in the ABSENCE of minimum royalty requirement.
  – Best efforts to...
  – Reasonable best efforts to...
  – Agreement to produce or sell certain number of units
  – Agreement to invest a specified amount
  – Not to refuse reasonable requests for sublicense

• What are penalties for lack of diligence
  – License converted to nonexclusive
  – Termination
Failing to Include Proper Representatives and Warranties

• Common mistakes:
  – Failing to include proper reps and warranties.
  – Relying on boiler plate provisions without consideration for deal and IP being licensed.
  – Taking an unreasonable position on reps and warranties and allocation of risk.
Failing to Include Proper Representatives and Warranties

Ownership

- Licensor owns the IP being licensed (or has obtained all rights necessary) to grant the licenses granted in the license.

Validity

- The IP being licensed is valid and enforceable.

Non-infringement

- The IP does not infringement on any third-party rights, and licensee’s use as provided for under the agreement will not infringe on the rights of any third party.
Failing to Include Proper Representatives and Warranties

Factual Accuracy

- Licensor guarantees factual accuracy of any information it provides regarding the IP (can be important in copyright context).

Authority

- Parties have the authority and ability to enter into the license and perform the obligations under the license.
Failing to Address License Recordation Obligations

• Certain jurisdictions have mandatory recording requirements for IP licenses.
• In other jurisdictions, recording is optional, but provides licensor with additional benefits:
  – Ability to transfer royalties out of that country.
  – Enforce the license against third parties.
  – Claim costs in proceedings for infringement that occurred before the license was registered.
• Build recordation obligation in license discussing:
  – Who bears burden to record?
  – Licensee’s obligations (i.e., assist in providing licensor with information necessary to record license).