



COUNSEL TO GREAT COMPANIES

# Show Me the Money: Monetizing IP via Licenses

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# Agenda

- IP 101
- The “What” and “Why” of Licensing
- Anatomy of a License Agreement
- Traps for the Unwary

# IP 101 – IP Rights

- “Intellectual Property” rights are intangible legal rights that relate to technology, which is the tangible result or output of a service or development
  - Intellectual property is the legal right to control others’ use of specifically defined technical or artistic subject matter in specific ways that vary by the right (patent, trade secret, ©)
  - Possession of software, technical information or other technology does not necessarily give the right to control associated IP rights
  - IP rights may apply to a tangible item of technology, but there are no IP rights contained in that thing
- You transfer products & technology; you obtain, perfect, register, and enforce or license IP

# IP 101 – Copyright

- National: each country has own copyright law; covering US here
- Protects ‘works of authorship’
  - Covers particular expression, not underlying idea
  - Must be fixed in tangible form
  - E.g., software or machine design on flash, disk or paper, printed material (as well as traditional artistic works)
- Copyright lasts from 70 to possibly ~200 years
  - 1978-present: life of author plus 70; works made for hire 95 from first publication or 120 from creation, whichever is shorter
- Copyright automatic upon fixation of work
- Registration merely ministerial
  - No substantive government review

# Copyright – Enumerated Rights

- Copyright owner can exclude others from:
  - reproducing (a/k/a “copying”), publicly performing, publicly displaying, distributing, or preparing derivative works of
  - the protected ‘work’
- Other “rights” not appropriate in a license
  - E.g., use, design, lease, sell

# IP 101 – Patent

- National: each country has own patent law; covering US here
- Patents protect new, non-obvious, useful inventions
  - Inventions may be relevant to multiple products
  - Single product usually embodies multiple patentable inventions, e.g., phone, airplane
  - Patent lasts 20 years from date of filing
- Patents awarded by government
  - Case by case application
  - Substantive examination by government agency
  - In the US, that agency can review the correctness of its award

# Patent – Enumerated Rights

- Patent owner can exclude others from:
  - making, using, selling, offering to sell, or importing
  - the ‘invention’ (usually a product or process)
    - No affirmative right to practice invention
- “Have Made” rights implied from make
- Rights apply even to defendant’s independent development
- Other “rights” not appropriate
  - E.g., design, copy

# IP 101 – Trademark

- Word, phrase, symbol or design that identifies and distinguishes the source of goods of one party from those of others
- Also a very limited issue in the software realm, but “naked licenses” are one issue of relevance
  - Customers may allow the vendor to use their trademark as needed during the course of the work, without retaining any right to approve the use of the mark in connection with the vendor’s service or control quality
  - Seems simple, but could be disastrous for the customer and lead to trademark abandonment



# IP 101 – Trade Secret

- Trade secret now a mixture of federal (Defend TS Act 2016) and state law
- Trade secret defined as
  - Information that (a) has incremental value if kept secret and (b) the owner takes reasonable efforts to keep secret
  - A trade secret holder will use confidentiality provisions and trade secret licenses to comply with (b)
  - Lasts forever, provided (a) & (b) remain true
  - Failure to meet (b) threatens trade secret status against all, not just the one person who gains info without adequate protection
- Trade secret owner can exclude information recipients from using or disclosing secret info

# Who Owns the Crown Jewels?

- Consider institutions (e.g., universities), accelerators, and other third parties

# A Note About NDAs

- ***Always enter into them if you're going to disclose information in discussing potential business initiatives / agreements***
  - Especially important if deal does not get done, as confidentiality will almost always be baked into a license agreement and will be “back-dated”
- Typical NDA has three components
  - Definition of “Confidential Information” – if you're disclosing, broadly define “Confidential Information” and eliminate any marking / writing requirements
    - Various exceptions apply, including info being publicly available and independent development
  - Non-use and non-disclosure obligations
  - Obligation to use reasonable efforts to maintain secrecy
- Remedies for breach include damages and/or injunction
  - “Taint” and residuals clauses – to avoid being “tainted” by confidentiality, recipient party might ask for “residuals” clause that explicitly permits it to use confidential info retained by memory as a result of exposure to it; do not agree to these if concerned about reverse engineering

# What is an IP License?

- Contractual permission (and grant of intangible right) to “violate” a statutory IP right (i.e., a covenant not to enforce a right against the licensee)
  - make a device covered by a patent
  - copy (reproduce) a work covered by a copyright
  - display a trademark

# Why License?

- **Monetize** your IP while retaining ownership
- Exercise **control**
  - Who can use?
  - What can they do?
  - Termination rights
- **Deviate** from background legal principles
  - Reverse engineering
  - UCC warranties
  - Consequential damages (lost profits)
- Allocate (and limit) **liability**
  - Indemnification and limitations of liability
  - Warranty disclaimers (see UCC warranties, above)

# Parties

- ***Licensor*** hereby grants to ***Licensee*** ...
  - Grant must be present (“hereby”), not “agrees to grant,” or “will grant,” unless grant is for future, in which case include “further assurances” clause to ensure that licensor contractually obligated to grant present license in future.
- Clearly identify licensor and licensee
  - Use defined terms, but use them carefully
- Consider subsidiaries
  - Does licensor include licensor’s subsidiaries?
  - Do licensee’s subsidiaries get benefit of license?
  - Problems with “Licensor, on behalf of itself and its subsidiaries ...”
    - Don’t take action on subs’ behalf
    - If license to/from sub is important, comply with good corporate governance and tax practice, check with those experts, and make the grant express

# Grant – Licensed IP

- Licensors hereby grants to Licensee a .... license ... under ***Licensors' Patents*** ....
- Clearly identify
  - Always specify type of IP (patent, copyright, trade secret)
  - Use separate grants for each type of IP
    - Avoids confusion
    - Gives more precise control over each form of IP

# Grant – Rights

- For software:

Licensors hereby grants to Licensee a ... license to ***use\*, reproduce, modify, adapt, publish, translate, create derivative works from, distribute, perform and display ....***

- For patents:

Licensors hereby grants to Licensee a ... license to ***make, use, and import, but not to sell or offer for sale ....***

- Use the right verbs
  - Match verbs to type of IP (i.e., patent verbs for patents, copyright verbs for copyrights, etc.)
  - For clarity cover all the relevant verbs to show which are included and which are excluded



# Grant – Other Modifiers

- **Exclusivity** - consider whether the exclusive license prevents the licensor from practice/use
- **Territory** – limitations on regions or territories are often driven by business concerns or by enforcement concerns
- **Royalty or payment** obligations – ask an expert, especially regarding patent licenses. Licenses that purport to pay royalties beyond the life of a patent may not be enforceable. Typically inapplicable in software context, which has payment terms (see “Fees” slide)
- **Transferability** – typically tied to the assignment of the overall agreement. The typical rule that contracts are assignable absent a prohibition does not apply to IP licenses.
- **Revocable/Irrevocable** – usually unnecessary as long as there is term; irrevocable may preclude the termination of the license, and the licensor’s exclusive remedies for breach are damages and equitable relief
- **Sublicensing** – generally not recommended because it reduces control. If distributing or reselling, control flow-down terms (appropriate restrictions, prohibiting transfer, disclaim warranties, etc.) instead of sublicensing.

# Sample License Grant (Copyright)

Below is a broad and generally Licensee-favorable license grant for software:

- Licensor hereby grants to Licensee a non-exclusive, worldwide, non-transferable (except as provided in Section [X] (Assignment)), [[perpetual] or [during the Term]], [irrevocable] license (with the right to grant sublicenses) under Licensor's copyrights to use, reproduce, modify, adapt, publish, translate, create derivative works from, distribute, perform and display the [Software] for Licensee's internal business purposes.

# Sample License Grant (Patent)

Below is a sample license grant for patents (more Licensor-friendly):

- Licensor hereby grants to Licensee a non-exclusive, worldwide, [[perpetual] or [during the Term]], non-transferable (except as provided in Section [X] (Assignment)), [irrevocable], license (with no right to grant sublicenses) under Licensor's [Patents] to make, use, and import, but not to sell or offer for sale Widgets.

# Sample License Grant (Trademark)

Below is a sample license grant and quality control provision for trademarks:

- Licensors grants Licensee a worldwide, non-exclusive, royalty-free, non-sublicensable, and non-transferable license to use the Licensed Marks during the Initial Term or any Renewal Term, solely in connection with the Licensed Activities.
- Licensee agrees to cooperate with Licensor in facilitating Licensor's control of the quality of the Licensed Products sold under the Licensed Marks. Licensee shall comply with all applicable laws and regulations and obtain all appropriate government approvals pertaining to the sale, provision, or advertising or promotion of the Licensed Products offered under the Marks. Licensor shall have the right to examine the nature and manner of all uses to which Licensee may put the Marks to ensure material conformity with Licensor's quality standards, and Licensee shall make such changes to its use of the Marks as may reasonably be requested by Licensor. [Etc.]

# Reservation of Rights

- Reservation of Rights. Except as expressly granted in this Agreement, no rights or licenses whatsoever, in or to any Intellectual Property, are granted by either Party hereunder, whether by implication, estoppel, exhaustion, or any other theory. All Intellectual Property rights not expressly granted in this Agreement are reserved by each Party.
- ***The Software is licensed, not sold...***
  - Frequently seen in software license agreements; avoids consequences of “first sale,” under which copyright holders give up right to control distribution of their works after first sale.
  - Language is one factor in three-part judicial test for whether copyrighted work is subject to “first sale,” along with restriction on transfer and notable use restrictions.

# Restrictions

- Typical restrictions will include prohibitions on:
- Reverse engineering
- Modifying, adapting, altering, creating derivative works
- Merging software with other software
- Combining software with open source software
- Performing service bureau work
- Removing, altering or obscuring notices

# Term and Termination

- Consider what the ***term*** of the license should be
  - Evaluation / beta testing? One year? Multi-year? Auto-renewal?
  - Other ancillary issues: price increases; survival provisions; whether license grant and agreement are coterminous; wind-down / transition periods
- Think through your ***termination*** rights
  - If licensor → will likely only be able to terminate after set period of time (e.g., after initial term) or on licensee's material breach (unlikely to happen / not reliable). Permit termination for convenience if fees are paid upfront and non-refundable.
  - If licensee → should ask for termination for convenience, but will likely be required to forfeit any amounts paid (see above). Consider transition assistance to new vendor, data migration (format and accessibility), secure data destruction.
  - Each party should retain right to terminate for breach, and may specify certain categories of breach that cannot be cured (e.g., misuse of the license)
- Survival clauses – restrictions, indemnification obligations, limitations of liability, etc.

# Fees

- **Software** → upfront (annual), monthly or quarterly subscription, per-transaction, or combination
- **Patent** → royalties payable on net sales of licensed products (products whose sale would infringe licensor's patent). Net sales usually invoiced less customary deductions, credits, rebates, freight, etc.
- Selected issues:
  - Invoicing
  - If per-transaction, royalty-based, or MFN, auditing critical
  - Antitrust – most common in reseller arrangements and setting minimum floors, which can have anti-competitive effect on consumer by restricting reseller's price competitiveness. Set minimum price between licensor and reseller.
  - Revenue recognition – cannot recognize revenue until no contingencies. If licensor permits refund (e.g., during warranty period), potential refund is “contingency,” so must wait out warranty period before recognizing revenue.



# Allocation of Liability – Warranties

- ***What is a warranty?*** Covenant (promise) that particular fact is true during certain period of time, either expressly in contract or impliedly under statute (UCC)

- ***What warranties most frequently appear in licenses?***

- Performance – typically time-bound (e.g., first 90 days, software will perform in accordance with documentation / specifications). Consider “sole remedies” – licensee cannot terminate
- Non-infringement – typically continuing during agreement. Note different risk profile between non-infringement warranties offered by (a) copyright or trade secret licensors and (b) patent or TM licensors (TM less so, but based on geographic use). Can apply “knowledge qualifiers”

- ***How can I disclaim warranties?***

- Be conspicuous (ALL CAPS HELPS, but not required. **Can use bold.**)
- Be sure to disclaim three implied UCC warranties – merchantability, fitness for particular purpose, and title / non-infringement (unless offering non-infringement warranty above)

# Allocation of Liability – Indemnification

- ***What is indemnification?*** Promise to compensate / reimburse for a loss. Similar to insurance. In licensing context, usually applies to third party claims only.
- ***What indemnities most frequently appear in licenses?***
  - Licensor → third-party infringement claims (often reduced to extent software combined with other software, licensee misuse, modifications made to software)
  - Licensee → breach of agreement, negligence, licensee-provided data
- ***“Defend, indemnify, and hold harmless”*** – nuances abound, but essentially requires indemnifying party to step in, defend suit against indemnified party, and pay damage awards and fees
- Also consider procedure – indemnitor should demand prompt notice of claim, sole defense and settlement latitude, reasonable cooperation from indemnitee. Indemnitee may participate at own cost.

# Allocation of Liability – Limitation of Liability

- Typical LoL is two-headed monster: (i) limitation on **“consequential”** or **“indirect” damages** and (ii) liability **cap**
  - Limitation on consequential / indirect damages: all damages that breaching party knew or should have known about, e.g., lost profits / loss of future business
  - Liability cap: cap total liability at fixed dollar amount; can be tied to fees paid or can be arbitrary number (less enforceable)
- Carve-outs frequent
  - Indemnification – if indemnification not carved out, then it’s usually meaningless (fees rarely high enough)
  - Breaches of confidentiality – often result in consequential damages

# Miscellaneous Provisions

- ***Governing Law and Venue***

- CA and fed / state courts in SF or SC County, or “defendant’s backyard” to discourage litigation. Consider alternative dispute resolution, e.g., dispute escalation procedures in contract, mediation, and/or arbitration.

- ***Anti-Assignment***

- Potentially triggered by exit event, so especially important for start-up clients. Ideally agreement is freely assignable on notice. Avoid consent requirements.

- ***Entire Agreement***

- Ensures that written agreement takes precedence over any oral discussion or term sheets. Written contract “integrates” all prior and separate understandings.

- ***Severability***

- Avoids unenforceability of one provision voiding entire contract.

- ***Publicity***

- Licensor may want to identify licensee as customer

# Traps for the Unwary

- **PIIA / CIIA Signatories** → Ensure everyone, including founders, signs one. If someone does not sign one, employer will have to obtain a “confirmatory” assignment from the individual and, if in CA, will have to pay fees to the individual, as continued employment does not equal contractual consideration in CA.
- **“Work Made for Hire” Doctrine and New IP** → WMFH vests ownership of new IP in employer. For independent contractors developing IP for company, include assignment language and do not rely solely on WMFH: (a) WMFH does not include “literary works” (computer software), so software developer could be deemed author (and therefore owner) and (b) adding WMFH language may create “statutory employee” issue in CA (entitlement to benefits and employer pays taxes on wages)
- **Joint Ownership** → Always avoid! Neither party can prevent the other from licensing; duty to account and share proceeds in copyright; issues in patent include prior art (one joint owner’s prior art can constitute prior art to application of both) and standing to enforce (co-owner can refuse to be joined in infringement lawsuit and block it).



THANK YOU!