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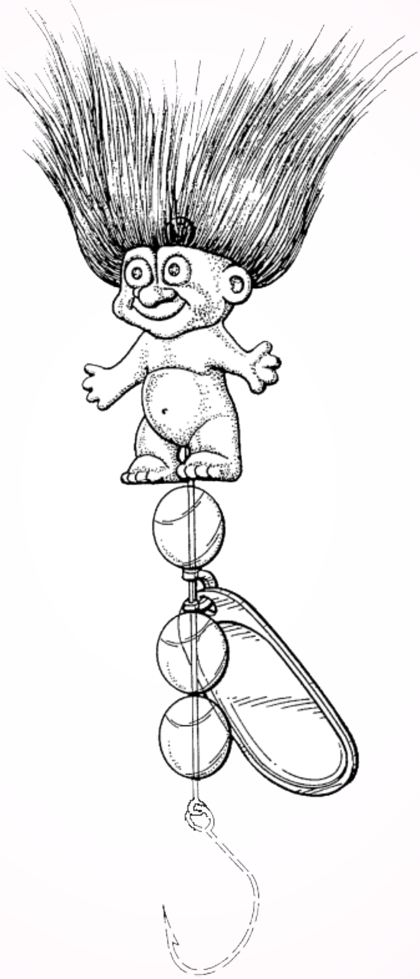

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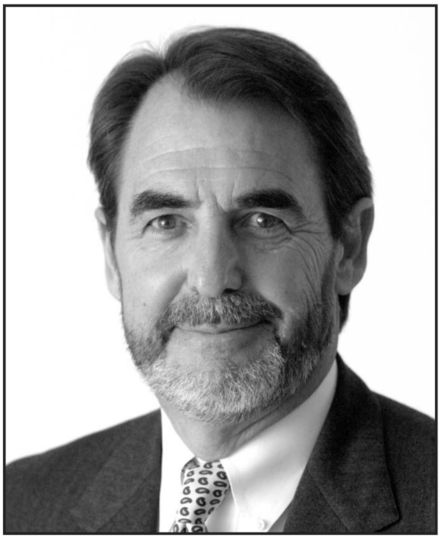

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LICENSE AGREEMENTS: CLOWN CARS, IMAGINARY LICENSES AND OTHER CONCERNS

Last summer, I joined some of my colleagues from the Licensing Interest Group of the Intellectual Property Section to give presentations on "licensing basics."[1] It's a hard topic to present: What do you include and what do you leave out? With that in mind, herewith a few of the topics covered but in a bit more depth.

Who's Who in a License Agreement

How Many Sibling Corporations Can Fit into the "Licensee?"

The term "Licensee" is not exactly a clown car, but it does carry the risk of increasing the number of users of Licensed Technology.[2] If the Licensee is a corporation with numerous subsidiaries—or, for that matter, a subsidiary with a parent, sibling and subsidiary corporations—then the risk exists that more than the single corporate Licensee who signs the agreement could end up using the Licensed Technology.[3] Accordingly, the Licensor's lawyer should clarify who the Licensee is and is not.

Naturally, the license grant provision contains the solution, with language that explicitly addresses the concern in several places—the scope of use and limits on the rights being licensed. Thus, the grant language could state that the Licensed Technology shall be used only by Authorized Users (a defined term which could include a definition of "subsidiary"). In addition, there would be an explicit statement as to the absence of any grant of a right of sub-license. For example:

> This grant of rights does not include any rights of sublicense or any form of transfer whatsoever.

Most situations are not always that simple and it is not entirely clear that this language would limit the sublicense or transfer to another corporation in a large organization. First, a right of sublicense is often essential to the use of the Licensed Technology, especially where the Licensed Technology will be used together with other technology or if the corporation's clients will be using some or all of that technology. If it is true that the Licensed Technology can be sublicensed to clients but *not* to sibling corporations, then the license grant should make both situations clear. The first right of sublicense—for use by clients—would be covered in the scope of use. (That scope can be in an exhibit if it is too complicated.) As to preventing use by siblings, a prohibition, buttressed by either a mechanism to include sibling corporations or a covenant *not* to sublicense (or transfer) to a sibling corporation, might do the trick. Here's some such language:

> This license grant is only to the Licensor and not to its subsidiary, sibling or parent corporations or to any Affiliates, in all cases whether or not such entities exist on or after the Effective Date.

If sibling corporations can use the Licensed Technology, then pay attention to two important points. First, define what a subsidiary is—including, for example, a schedule of those involved. Make it clear whether or not subsidiaries that come into existence after the effective date are or are not permitted to have sublicenses.[4]

Second, at a minimum, the Licensor should be responsible for the actions of any of its subsidiaries, whether or not the use by the subsidiary is authorized under the license agreement. The Licensor should be able to look to the Licensee to collect on breaches by any subsidiary.

Know Your Licensor

Problems defining the "Licensor" arise when the company signing the license agreement as "Licensor" has subsidiaries that have either contributed to creating the Licensed Technology or have a license to it.

Many European startups obtain US funding by creating a US corporation that owns IP, while the original startup in the European nation becomes the R&D subsidiary. If that R&D sub creates technology that becomes part of the Licensed Technology, that sub owns the IP rights in what it creates. Just because it is a subsidiary does not automatically mean that the parent owns the IP—or has any rights whatsoever in its use.

In other cases, a corporation might create sibling corporations in various countries to take advantage of unique conditions in given markets, *e.g.*, tax benefits or cultural or other advantages that help local sales and marketing. If those sibling corporations create any technology that becomes part of the Licensed Technology, then the same situation applies: *That* sibling company owns the technology it has created.

The Licensor's lawyer should make sure that all of the IP assignment agreements (or their equivalent) among corporations are in place, current (*i.e.,* covering the relevant technology) and valid. In the absence of such agreements, the Licensor will breach one of the essential representations and warranties of the license agreement—its rights in the Licensed Technology. Moreover, make sure that the representation and warranty is not limited to ownership, as often a Licensor only owns a part of the Licensed Technology but has (or at least should have) valid licenses in the remainder of it.[5]

Interestingly, Licensors in this situation should be careful in granting an exclusive license. Perhaps the licensing corporation has granted a license back to its European R&D sub (or its European sales sub). The lawyer should check on any potential overlap.

When Is a License Not a License?

Very few lawyers can tell me why they include in their license agreements a disclaimer of the United Nations Convention on Contracts for the International Sale of Goods (we'll call it the "UN Convention").[6] In the *UsedSoft* opinion—and its progeny—several European courts (including the European Court of Justice) might provide something of an answer, or at least some guidance.[7] And very few people like it.

Nothing short of a separate article on the UN Convention and one on *UsedSoft* would do justice to both topics—and explain why it has any effect on agreements governed wholly by US law.[8] Briefly, though, the thinking here is that the UN Convention applies to certain agreements unless the parties expressly disclaim its applicability. Under that convention, certain limitations on use and resale of items would not apply. In *UsedSoft*, the court held that a used version of software could be resold. Basically, the ECJ said that a license agreement could qualify as a purchase agreement if there is no time limit on the use right and the user has paid a one-time fee equivalent to the economic value of the software.

A Dutch case last year brought this matter to the shores of North America—well, Canada, because the company licensing the software was Canadian.[9] Interestingly, the court made short work of matters such as the title of the agreement (a "License agreement") and language in the agreement as to the intent of the parties. Instead, the court interpreted the language of the agreement and found, voila (or whatever the Dutch version of that word is), that, first, it fell within the three-part test of *UsedSoft* and, second, that it was therefore subject to the relevant UN Convention.

Whether or not the parties included the usual disclaimer of the UN Convention is not clear (it's highly unlikely and, in any event, I don't read Dutch). However, the holding suggests that the disclaimer by itself is not enough, if the court in question will read the agreement language in a manner that brings the facts into the *UsedSoft* holding. True, this opinion has little if any effect on license agreements covering activities solely in the US but these days many agreements extend into the EU, whether on purpose or by the nature of the Internet.[10] Including the UN Convention disclaimer is good "drafting hygiene" but one must steer clear of the *UsedSoft* test, namely, avoid one-time payments equivalent to the economic value of the software and an unlimited period of use.

(Odious) Escrow Agreements

It should be obvious from the subheading above that I am not a fan of escrow agreements, but in the technology space they are a frequent topic to address. The purpose of an escrow agreement (also known as a "Source Code Escrow Agreement") is to give comfort to Licensees that their access to the software will not evaporate if the Licensor goes belly-up (that's a technical term). If certain "triggers" occur, the Licensee gets access to the source code.

It's a genuine concern, especially among enterprises that are licensing software from a startup that might have an uncertain future. No CTO or CIO wants to discover that a key component of mission-critical technology might go missing.

First, I'm not convinced that an escrow agreement can survive in the very environment for which it is intended—bankruptcy. Wouldn't the agreement be voidable (listen up, bankruptcy attorneys)? Wouldn't the underlying license agreement be voidable (even with the appropriate 365(n) language)? Yes, there might be ways around such a risk, but is it worth it? Frankly, escrow agreements will (and should) drag you into the world of bankruptcy law; once there, you should make sure you have good counsel.

Second, such an agreement can be akin to killing flies with a howitzer; giving access to the family jewels might be a solution disproportionate to the problem being addressed. Third, and perhaps most important: In the era of SaaS/DaaS/PaaS and so forth, perhaps the utility of an escrow agreement has come and gone.

As with *UsedSoft*, escrow agreements are a topic for a lengthier piece, but several observations might be useful here. First, if I am representing the Licensor then I try to persuade the Licensee's counsel that such an agreement should be used *only if* the software being used is, indeed, mission-critical, or a component of mission-critical technology. We have a client with a SaaS application that generates historical analysis of social media campaigns. It is anything but mission-critical. Source code access would accomplish nothing. Now, if the software in question were to be used for, say, monitoring the lives of patients, well, then, it's another question altogether. But even in that case, the escrow agreement might not suffice because the handover might not be fast enough.

Conceding that in some situations an escrow agreement might be unavoidable, I would then turn to several provisions. First, it must be clear that the access is *only* for maintaining access and use under the existing license (assuming it has not been voided) and cannot be used for any other purposes whatsoever, including, for example, commercialization or the creation of derivative works. In addition, I would include a license-back of any improvements made after the access to the source code occurred.

In the SaaS environment, one provision I like is that access to and maintenance of the software would go *not* to the Licensee but to a third party chosen by the Licensor and Licensee. The provision would include a selection mechanism or the parties would identify that third party in the escrow agreement. That approach takes some work, though, because finding someone capable of such maintenance might be difficult. Not impossible, just difficult.

Conclusion

The eagle-eyed among you will realize that my suggestions might not really be effective (or even good) solutions. But, hey, that's the fun, and challenge, of drafting technology agreements. ◂◂

The views expressed in this article are personal to the author and do not necessarily reflect the views of the author's firm, the State Bar of California, or any colleagues, organization, or client.

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Endnotes

1. The program was *The Second Annual Practical Skills Program*, on July 11th in San Francisco and July 14th in Los Angeles, co-sponsored by the California Young Lawyers Association and the Litigation Section of the Intellectual Property Section. My colleagues in the Licensing Interest Group, John Pavolotsky, Sean Hogle and Teri Karobonik presented in San Francisco; I presented in Los Angeles. Contact the CYLA if you wish to watch the videos, presumably for MCLE credit.
2. For purposes of this column "Licensed Technology" means software. Similarly, "Licensor" and "Licensee" are capitalized as if they were parties to an agreement.
3. For simplicity this column uses the phrase "sibling corporations" to include any and all relationships among corporations (or other legal entities) within a larger unit—so, it includes parent legal entities, subsidiaries and sibling corporations at any levels, as well as joint ventures, special purposes vehicles and the like. This issue can get a bit more complicated where the "user" or Licensee is a special business unit (SBU) or division that is not a legal entity.
4. *See* especially *Imation Corp. v. Koninklijke Philips Electronics*, 586 F.3d 980 (Fed. Cir. 2009). There, the definition of "subsidiary" did not make it clear that any such legal entity would be only those created prior to the termination date.
5. It is especially important to include "valid rights" in this representation and warranty if Open Source Software is part of the Licensed Technology. For example: "Licensor owns and/or holds valid licenses to all of the Licensed Technology."
6. A valuable piece on the United Nations Convention on Contracts for the International Sale of Goods can be found at K. David Adams, C. M. Zierdt, "United Nations Convention on Contracts for the International Sale of Goods" June 2015, *Business Law Today*, online at http://www.americanbar.org/publications/blt/2015/06/03_adams.html (accessed July 1, 2016).
7. *See UsedSoft GmbH v. Oracle International Corp*, 2012 C.M.L.R.3 44 (2012). A lot of (digital) ink has been spilled on the *UsedSoft* opinion. An especially good one is an article on its effect under German law, at M. Savic, *The Legality of Resale of Digital Content after UsedSoft in Subsequent German and CJEU Case Law* (2015) 37 E.I.P.R., Issue 7 at 414. Electronic copy of the article can be found at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2754497.
8. A humorous commentary on the UN Convention is entitled "Waiter, there is a United Nations in my software licence" [sic] by Fernando Cassia (December 27, 2010). It can be found at http://www.techeye.net/software/waiter-there-is-a-united-nations-in-my-software-licence. It's worth reading.
9. *Corporate Web Solutions, Inc. v. Vendorlink BV*, 25 March 2015 - ECLI:NL:RBMNE:2015:1096 (CWS/Vendorlink).
10. Ignore the UN Convention at your peril. US law most certainly includes the UN Convention as noted in K. David Adams, *et al.*, at footnote 6 above.