

LICENSING BASICS.

Designs, Drafting, Details & Demons

A Practical Review of the Structure & Drafting of License Agreements

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This is not legal advice.

This document is for presentation purposes only to inform readers of aspects of technology license agreements. It is not legal advice.

Seek legal counsel to know what type of license agreement (or other documents) you might need.

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Summary.

Answering the following question in the terms of an agreement:

Who grants rights in what to whom for what scope of use, in what area, for how long, for how much and with what rights of termination?

Not as simple as it looks. Look for “ripples” through the document.

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The Structure

Part I. The Building Blocks

Part II. What to draft

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Framework & Assumptions

1. Some of the issues you will see in reviewing licensing agreements. This is licensing basics—not a survey course—with this purpose: *How do I review an agreement?*
2. You remember law school: Differences between copyrights, trademarks & patents.
3. The framework here is technology and digital content licenses—not music, not biotech, etc. (though these basics will emerge).
4. We assume it is a license and *not* work-for-hire.



Work-for-Hire & Licenses

Do you want a work-for-hire transfer or license?

- WFH means that you own it; licenses have a long “tail” with a reversion decades later.
- If software (or code) you might not care but the next Mickey Mouse? You care.
- Sometimes, WFH is included (in things they develop for you—e.g., “look-and feel” coding).

WFH will matter to understand the chain of title.

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The Context: Clash of Industries

Hollywood v. the digital “tradition”:

- Hollywood wants to own everything—even if it has not been invented.
- Silicon Valley wants discrete rights.

The license will depend on the industry.

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Part I. The Building Blocks

So . . .

Who grants?

What rights are being granted?

In what?

To whom?

For what scope of use?

In what territory?

For how long?

For how much?

With what termination?

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License Table of Contents.

1. **Introduction:** *Who*
2. **Recitals (or Background):** *Plain explanation.*
3. **Definitions:** *What really matters.*
4. **License Grant:** *What they get to do with what.*
5. **License & IP restrictions:** *Belt & Suspenders.*
6. **Licensor Obligations:** *What this party must do.*
7. **Licensee Obligations:** *What this party must do.*
8. **Payment:** *Who pays how much when?*
9. **Confidentiality:** *Important to both parties.*
10. **Reps & Warranties:** *Chain of title and truthful statements.*
11. **Limitation of Liability & Indemnification:** *The heavy stuff.*
12. **General Provisions:** *Do not ignore—never call them boilerplate.*

This is only an incomplete outline.

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How to Remember.

Mnemonics aren't great here:

WGWWSTLMT (???)

Tinkers-to-Evers-to-Chance:

Who to whom for what, how & why and on what terms?

Or, just remember the question:

Who grants rights in what to whom for what scope of use in what area for how long, for how much and with what rights of termination?

Or tape that page to your monitor.

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Who Grants the License: Licensor.

The lawyers' hammer and the clients nails.

- Who is the Licensor? Multiple parties?
- A pass-through license? Note reps & warranties (in our drafting section): The chain of title.

What you care about is that the licensor actually has the rights claimed.

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What rights are being granted?

The first part of “Scope of Use.” Licensor grants to Licensee the use of *specified IP*.

So, in drafting:

- Specify the technology or content to be used.
 - Does it include updates, new versions, upgrades, bug fixes, patches? Definitions section or an exhibit or schedule?
 - Note “embedded definitions” in all definitions (a good thing).
- Traffic information as an example.

See “Scope of Use” below

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Sample Provisions: Licensed Tech

“**Core System**” shall mean the *Software Program* operated by Licensee and developed and maintained for Licensee by Licensor prior to the development, installation and/or integration of any customer programming or other technical work by Licensor as set forth on Attachment E.

“**Documentation**” shall mean any and all materials and information provided by Licensor to Licensee in connection with the use of the *Software Program*. Such materials shall include all documentation and specifications detailed in Attachment E of the License Agreement.

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Sample Provisions (2)

“**Updates**” shall mean any and all modifications, enhancements, customization, updates, replacement and revisions to the *Software Program* pursuant to this License Agreement or the Maintenance Agreement, as the case may be, and/or when offered by Licensor to Licensee and in each case at the sole and exclusive option of Licensor. *New Versions* are excluded from Updates.

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In What?

Certain technologies or content for certain uses. *For example:*

- Technology to create a database and use technology to manipulate the data? (Who owns the data?)
- Technology to display something (video player).
- Technology to communicate: IM platform.
- Content: As is or mix-and-match?
- Content in a specified format?

Time out: Is it in the public domain? Or quasi-public domain (Linux, GNU License, Creative Commons)?

But wait, there's more . . .

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What Rights?

One, some or all of the following:

Copyright.

Trademark.

Patent.

Publicity.

Privacy.

Trade secrets.

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Entertainment Industry Provisions.

“Broadcast Television Rights” shall mean all forms of free broadcast television distribution *now known or hereafter devised* of the entire Program, including but not limited to broadcast by VHF and UHF television stations.

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Entertainment Industry Provisions.

“Internet Rights” means *Internet Downloading* or *Internet Streaming* exploitation of a Motion Picture. *Internet Rights* do not include any form of *PayPerView*, *Video*, *Pay TV* or *Free TV* exploitation of a Motion Picture.

“**Internet Downloading**” means exploitation of a digital Motion Picture Copy by making it available on the World Wide Web portion of the Internet in a manner that allows its transmission to a Computer for making another exact digital copy of the Motion Picture Copy and retaining the new digital copy for use for more than a transient period of time after completion of the initial continuous period of transmission. *Internet Downloading* does not include any form of *Internet Streaming*.

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Entertainment Industry Provisions.

“**Internet Streaming**” means exploitation of a digital Motion Picture Copy by making it available on the World Wide Web portion of the Internet in a manner that allows continuous viewing of the Motion Picture Copy on a Computer in a substantially linear form substantially simultaneously with the transmission of such Motion Picture Copy over the Internet but which does not allow making another digital copy except for a transient period of time necessary to facilitate such viewing. *Internet Streaming* does not include any form of *Internet Downloading*.

“**Internet Streaming/Downloading**” means exploitation of a digital Motion Picture Copy by making it available on the World Wide Web portion of the Internet for both *Internet Downloading* and *Internet Streaming* at substantially the same time.

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To Whom?

Granted to the Licensee, but:

- One company, a group, subsidiaries?
- If company is acquired? (Assignment clause)
- Do employees and contractors need rights of sub-license?
- End users?

What sort of exclusivity? Use, territory, distribution, market?

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For What Scope of Use?

Scope is the core of the license: How can the licensee use it?

- Right to publicly display, etc. (content, output)
If so, then on what platforms?
- Modify (content or technology).
- To create other content or other technology?
- To communicate (IM platform, VOIP).

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The Copyright Bundle of Rights.

1. Reproduce
2. Prepare derivative works.
3. Distribute copies.
4. Perform.
5. Display publicly.
6. Sound: perform via digital audio.

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An Example: License Grant.

1. GRANT OF LICENSE. Licensor hereby grants to Licensee for the Term a worldwide, nonexclusive license to the object code version of the Licensed Software and the Licensed Documentation, for the following purposes and on the terms and conditions set forth in this Agreement:
 - (a) USE BY LICENSEE. Licensee may install, use, reproduce, and display the Licensed Software and Licensed Documentation to effectuate this Agreement, including, but not limited to, the purposes of xxxxxxx.
 - (b) MARKETING AND DEMONSTRATION. Licensee may display the Licensed Software in order to demonstrate, market, and promote the Licensed Software.
 - (c) SUBLICENSING AND DISTRIBUTION. Licensee may reproduce, resell, sublicense, and distribute the Licensed Software, the Licensed Documentation, and any alterations thereto, derivative works thereof, or related materials provided by Licensor to Licensee hereunder.

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Or . . .

2. License & Ownership.

- (a) **License.** Subject to the terms and conditions of this Agreement, xxxxx grants to xxxxxxxx a limited, non-exclusive, non-transferable license to use (including without limitation) public display the **[defined term: technology]** and the **[defined term: content]** on **[defined term: platform]**.
- (b) **Ownership.** xxxxxx agrees that information stored, posted, or transmitted through the **[defined term: platform]** is the property of xxxx and/or User, as applicable, and proprietary to such entity or individual. All information pertaining to **[defined term: technology & content]**, in addition to all Intellectual Property **[defined term]** related thereto, is the sole property of xxxxxxxxxx.

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In What Territory?

In digital world, territory no longer (necessarily) equals geography.

- Often language-based (Francophone market, etc.)
- “Worldwide” v. “Galaxywide” v. “Universewide.”
- Specific industries.
- Especially relevant if trying to limit exclusivity.

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For How Long?

Term of the agreement: How long do you want a commitment? Term plus renewal.

- Often one-year plus auto-renewal or “manual” renewal.
- If it says “in perpetuity,” just how long is that?

See “Termination Rights” below.

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For How Much?

Licensor is usually not in this for the fun of it.

- Royalty payments: Ordinary income risks.
- Site or seat license.
- Flat fee.
- Set-up fees, custom service fees, streaming fees.
- Revenue-split (e.g., if advertising-based).
 - Traffic volume: CPM, page views, unique visitors, CPA.
 - *If so, then will need audit rights.*
- Equity investment.
- Bragging Rights & PR.

Payment structure over time?

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With What Termination?

What are you trying to accomplish?

- Performance: all obligations or just technical?
- Exiting a bad deal/better opportunities.

Broad rights of termination.

- Performance counts: Now moving to swift cure periods or at least suspension.

Use of technical specs (SLAs).

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Extra Considerations.

- Certain no-no's are specified: “Belt & suspenders.”
 - Reverse engineering.
 - No other rights granted.
 - Explicit claim of ownership.
- Branding Licenses: Cross licenses often needed (websites: logos, etc. then required from licensee).
 - “Powered by.” Where does the Licensor get credit?

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Part II. What to Draft.

Basic Suggestions:

- Use English—therefore, not legalese.
- Use a Term Sheet.
- Use Recitals or “Background.”
- Definitions.
- Use Exhibits and Schedules.
- Rights affect other terms—e.g., indemnification, representations & warranties.

Why are you drafting this agreement? Protection in court?

To guide the relationship?

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Drafting Details: Term Sheet.

Get the business people to write a comprehensive term sheet.

- Use it for most rounds of negotiations.
- Use it for guidance for you as counsel.
- Make sure it is plain English but still comprehensive on technical terms.
- Include all elements of license (scope, technology, territory, term, etc.)

Binding or not? Must make it clear.

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Drafting Details: Recitals.

Old fashion and out of favor, but . . .

1. Good roadmap.

- Judge Sixpack and “hit by a bus” theory.
- Guides the understanding of the agreement.

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Recital Example.

Recitals

- A. Licensee owns or operates various media properties, including, without limitation, xxx, xxxx, xxxxx, xxxx and provides information to consumers through other media including broadcast and mobile applications;
- B. Licensor provides xxxxxx on-line content substantially similar to the content available at the Licensor Site (as defined below);
- C. The Parties (as defined below) entered into an [XXXX] Agreement (the “Agreement”) as of [Date] (the “Effective Date”)

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Recital Example (2).

- D.** The Parties desire to provide English language [XXXX] information substantially similar to the content provided on the Licensor Site, to be made available on or through all Licensee-related properties, and on all platforms, including, without limitation, online, by e-mail distribution, via mobile devices or under limited circumstances via television broadcast;
- E.** The Parties desire to have Licensee provide certain content to be made available on or through all Licensee-related properties, and on all platforms, including, without limitation, online, by e-mail distribution, via mobile devices or under limited circumstances via television broadcast;
- F.** The Parties desire to allocate (and from time to time re-allocate) between the Parties certain technical and on-going responsibilities, including without limitation Hosting (as defined below) and maintenance responsibilities; and
- G.** the Parties desire to share certain advertising revenues earned from each XXXX Site.

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Drafting Details: Definitions.

1. Most important part of the Agreement.
2. Simplifies understanding of the technical terms.
3. Use a “Definitions” section at front of agreement (after recitals).
4. Concentrate on getting definitions right.



Examples.

“**New Version**” shall mean a major upgrade or successor version of a Program for which Licensor charges a separate license fee, and which is designated by Licensor as a new release.

“**Software Program**” shall mean the **software program** comprising the *Core System* through the *Effective Date* of this License Agreement plus the *Software Program, Updates* and any customization of the foregoing, which together include the following modules: xxxxxx.

“**Source Code**” shall mean the source code for the *Software Program*.

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Drafting Details: Exhibits.

1. Most useful part of the Agreement.
 - Used by business & technical side to guide relationship.
2. Incorporates technical and business terms.
 - Metrics for determining scope of license & performance.
3. Provides increased flexibility.
 - Can minimize need for amendments.

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Exhibit (Schedule) Example.

Schedule A

1. Solution Description.

1.1 XXXXXX. The solution provided by Licensor is designed to fit the requirements for Licensee by displaying xxxxx that offers access to xxxxx. The purpose of these xxxxxxxx is to provide an organized method of placing xxxxxxxx.

1.2 Upload & Review Functionality. The Solution includes a web-based interface, defined in this Agreement as the “Interface.” The Interface enables each User throughout the Term to receive, review, upload to each xxxxxxx, modify and download (or delete, as the case may be) from each xxxxx the Content through the interface provided by xxxxxxx. Modification shall also include functionality that enables each User to shift Content among different “categories.”

1.3 Modules Provided. The modules of the Solution under this Agreement are as follows (together the “Modules”):

- 2. Available Date.** The Services, Software and Documentation will be made available to Client within 7 days after the Effective Date (the “**Available Date**”).
- 3. Permitted Use.** The sole Permitted Use is xxxxxxxx.

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Drafting Details: The Ripple Effect.

1. Reps & warranties will nail down Licensor (scope of rights owned); indemnification will provide teeth.
2. Assignment rights will be affected by license (e.g., sublicense)—and will affect the license section.
3. Payment section can be put in exhibit.



Reps & Warranties: Watch for Landmines.

“Applicable Laws” may include EU privacy laws:

No Violation of Third Party Rights & Applicable Laws.

The execution, delivery and performance of this Agreement will not violate rights granted by xxxxxxxx to any third party or violate the provisions of any agreement to which it is a party or violate any applicable law or regulation, including those regarding export control; and

*Should this be narrowed to
“federal and state laws of the United States?”*

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That's It!

Well, at least the surface of it all . . .

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Thank You.

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