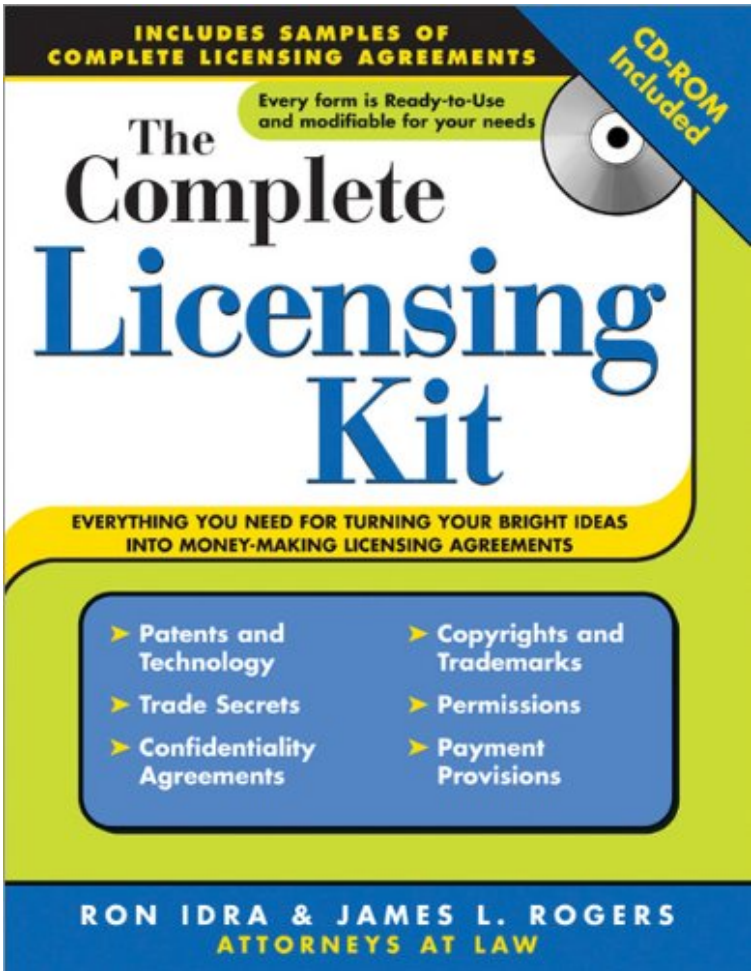
The Complete Licensing Kit: Everything You Need to Turn Your Bright Ideas into Money-Making Licensing Agreements (Complete . . . Kit)

James L. Rogers, Ron Idra



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James L. Rogers, Ron Idra : The Complete Licensing Kit: Everything You Need to Turn Your Bright Ideas into Money-Making Licensing Agreements (Complete . . . Kit) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Complete Licensing Kit: Everything You Need to Turn Your Bright Ideas into Money-Making Licensing Agreements (Complete . . . Kit):

Licensing is a multi-billion dollar industry. More people than ever are involved with intellectual property transactions and arrangements in everyday business. Anyone using, selling, transferring, giving, or obtaining permissions to use a product protected by intellectual property law can benefit from this book. It serves as an introduction and guide to reviewing, writing, and negotiating most of the licenses and agreements necessary to turn intellectual property into profit.Whether you are a business owner, inventor, engineer, artist, writer, photographer, or freelancer-The Complete Licensing Kit will give you a better understanding of your intellectual property rights and the processes of licensing and permission.

About the AuthorRon Idra received his law degree from the New York University School of Law, where he served as an editor for the N.Y.U. Law . He currently practices intellectual property law in New York City and acts as a copyright and trademark consultant for many large corporations.James L. Rogers received his law degree from Suffolk University. He has written extensively on a wide range of legal subjects. Rogers has worked for several law firms and a biotechnology company concerning patent and related intellectual law property matters.Excerpt. Reprinted by permission. All rights reserved.Eight Essential Questions for Potential Licensors or Licensees Excerpted from Complete Licensing Kit by Ron Idra and James L. Rogers 2007When developing your overall business licensing decisions, it also helps to consider all the separate business issues as a series of questions. The basic business questions that should be answered by both licensor and licensee are as follows. Who are the parties to the license? What intellectual property rights will be licensed? What can the licensee do with the intellectual property? Will the license be exclusive or nonexclusive? What will the payment be? What is the license term? What are the conditions for termination? Will any services be performed by either party?Who Are the Parties?When entering into any business relationship, it is clearly important to know with whom you are doing business. With respect to license agreements, it also becomes important to precisely define all the parties to the license. Due to the complexities of many business transactions, you need to pay careful attention to this issue.The two main parties to a license agreement are, of course, the licensor and licensee. However, it is not enough to know who the licensor and licensee are in a vague way. Both parties must be accurately defined. If you are the licensor, you have to first determine and then define the companies, departments, affiliates, and individuals who will be receiving and using your intellectual property. Deciding this may depend on other business terms and conditions. Properly defining the parties and resolving the legal issues with this point is covered in the next chapter.NOTE: When entering into discussions with potential licensees, the licensor should be very careful about disclosing any trade secrets, ideas for future development, or any other confidential information. Often, this is done by having the other party sign a confidentiality (nondisclosure) agreement before any important information is exchanged or business transacted.What Intellectual Property will be Licensed?The license grant provision is pretty much the heart of the licensing transaction and the license agreement. After identifying and defining the parties to the license, the next issue is deciding upon and structuring the nature of the license grant.In some cases, a licensor needs to take a preliminary step before deciding what rights to grant. This is especially true for companies (or individuals) who own a large number or a wide variety of intellectual property rights.For the licensor, a prior step to deciding what to license is determining what intellectual property is actually possessed. This may sound a bit counterintuitive-after all, how can someone be unaware of what he or she owns? However, ownership of intellectual property is more complicated than owning property of the physical kind. If, for example, you own several patents, numerous copyrighted works, or registered (or unregistered) trademarks, you will probably need accurate records to keep track of your rights.Remember that owning intellectual property is very different from owning physical property. The former involves development or acquisition, registration (in some cases), and subsequently, proper maintenance, payment of fees, and recordkeeping. If you own multiple intellectual property rights, keeping accurate track of these rights is an especially important process.NOTE: For many companies, an efficient way to keep track of their intellectual property is with an invention disclosure form for patents and a general disclosure form for other types of intellectual property. Further, to fully map out the entire inventory of its intellectual property, a company may conduct what is known as an intellectual property audit. This type of audit is similar to its financial counterpart, except the investigation is of the exact nature and scope of the intellectual property owned by a company.The intellectual property being licensed can take a wide variety of forms. For example, your licensed intellectual property could be any of the following, or include any combinations of these: patents: a patented invention; a patent application, which has not yet issued; or, a developed product based on a patent; copyright-any artistic work, such as a film, video or video clip, novel, article, musical composition, work of art, photograph, painting, drawing, sculpture, or most software; trademark-a word, phrase, or logo-either federally or state registered, or unregistered; or, trade secret-confidential information used in business, such as a client list, technical designs or specifications for a machine or process, or software.It is worth noting that regardless of the exact type of the invention, product, artistic work, or information, it is always intellectual property rights-patent, copyright, trademark, and trade secrets-that are being licensed.Remember that a licensor can license more than one form of intellectual property. In many cases, licensing a combination of IP rights will actually be more advantageous for both parties. In fact, the presence of more than one type of intellectual property in a license may increase the overall value of the license. This is especially the

case if one of the licensed intellectual property rights is generally recognized by the public. For instance, a patented product, not yet marketed, that is packaged with a well-known trademark may be a lot easier for the licensee to commercialize.Some commonly licensed combinations of intellectual property rights include: patent and trade secret-a patented device or machine together with technical information protected by a trade secret; copyright and trademark-a copyrighted design, character, or picture together with the licensor's trademark; and, patent and copyright-software that is protected by patent as well as copyright.NOTE: There are several points worth noting if you are licensing a patent. A licensor may license a patent application that is still pending-that is, one that has not yet been granted. However, once a patent has been granted, it may be legally licensed only if the patent is still in force-in other words, still within its twenty-year term.Regardless of the type of right or rights granted, everything must be carefully defined and spelled out in the license. The next chapter discusses these details and nuances of drafting this license grant provision.What can the Licensee Do with the Intellectual Property?The next step you have to consider is what the intellectual property will be used for, and the extent or scope of such use. Typically, the licensee receives intellectual property rights for the purpose of either: using the rights itself or producing, making, and selling a product based on these rights.For convenience, these two categories of licenses will be referred to as use-only licenses and produce and sell licenses. This distinction is a very important one, since together with the intellectual property to be licensed, it defines the most central aspect of the license.NOTE: The terms use-only and produce and sell are not technical legal names for these types of licenses. They are being used to help make this key distinction absolutely clear.Use-Only LicensesIf the license falls into the first category, the licensee may only use the intellectual property and nothing more. A common example of this type of license is the standard software license. The licensee receives rights to use a software program solely within its organization and only for its own internal business purposes. It may not further reproduce or distribute the program outside the company.Produce and SellOn the other hand, a license could be given to make, sell, and otherwise market a product based on licensed intellectual property. This produce and sell license will look very different from the use-only license. For one thing, you will need to define a licensed product in the license agreement. Additionally, payment for this type of license will typically be a percentage of the income (a royalty) made by each sale of the manufactured product. Many other differences exist as well, which are discussed in greater detail in later chapters.The term produce and sell does not always mean that producing and selling must occur together. This type of license could also be to produce a product only, or alternatively, to sell or otherwise distribute a product without the right of manufacture. It is up to the parties to decide the exact terms of the license, and the process of production, marketing, and distribution will vary from one industry to another.Restrictions on the LicenseeThe licensor can define (or restrict) the licensee's actions in many ways, including: the geographical territory in which the licensee may sell the licensed product (Europe, New York State, North America, etc.); the specific market the licensee may target (residential, industrial, wholesale, etc.); and, the right of the licensee to sublicense its rights-that is, to license to other parties within the scope of the license. (Sublicensing is addressed in the next chapter.)Regardless of the type of license, licensors and licensees often have opposing interests when it comes to the licensee's permitted actions. In most cases, the licensee will prefer a generalized license grant-the broader the better. This will give the licensee free reign to use intellectual property in as many ways as possible. It is also important for the licensee to think about how business needs may evolve in the future and whether the license grant will cover those needs. Once again, a broader license grant will be more advantageous for the licensee.The licensor, on the other hand, will usually want to narrow the license grant to specific uses on the part of the licensee. If a licensee demands broader rights, then the licensor will often want more money to compensate for a broader grant.Will the License be Exclusive or Nonexclusive?Every license is either exclusive or nonexclusive. An exclusive license means that the licensee has a monopoly on use of the licensed rights for the term of the license. In other words, the licensee is the sole entity that may use the intellectual property. In contrast, a nonexclusive license allows the licensor to license the same rights to other companies or individuals in separate agreements. Every license agreement must explicitly state whether it is exclusive or nonexclusive. That means regardless of the type of license you enter, you must decide between an exclusive and nonexclusive license grant.In general, licensees prefer to receive exclusive rights. This is especially true if the licensee is manufacturing and selling a product based on the licensed rights. In this case, the licensee will most likely be investing considerable costs in producing, developing, and marketing the product. An exclusive license will eliminate competition for the licensee, allowing it a broader market, and therefore, more revenue. All else being equal, this is worth much more to the licensee.Licensors, on the other hand, generally prefer to make their licenses nonexclusive. This allows them to make subsequent grants of the same intellectual property to other licensees and possibly make more money. However, there are times when an exclusive license makes sense for both licensor and licensee. This often occurs in the area of merchandising-that is, the license of an image, logo, brand, or design that will be placed on a manufactured article, such as clothing, toys, luggage, and so on. An exclusive license may sometimes make more financial sense. One exclusive license with a large, well-placed manufacturer may bring the licensor more licensing revenues than many nonexclusive licenses with smaller licensees. Once again, the particulars of the market and the needs-as well as bargaining power-of the parties will be determinative.What is the Payment for the License?For obvious reasons, what the payment will be is a very important question for both parties. Each party is

entering the licensing transaction with the intention of making money, and each party is carefully trying to maximize profits and minimize costs that will arise from a licensing arrangement.There are a variety of different ways to structure payment of a license, but overall, payment provisions break down into two basic types:1. fixed payments and2. royalties.Fixed payments mean that the fees for the license are a defined amount, payable all at once, in installments, or annually. Royalties, on the other hand, are defined as a percentage of the quantity and price of products sold.If the licensee is only using the licensed intellectual property (without making and selling a product), fixed payments are typical. On the other hand, if the licensee is making and selling a product based on the licensed intellectual property, the more popular method of payment is by royalties. However, licenses may have complicating factors, and your situation may warrant a combination of payment terms or a different way of structuring the financial considerations of your transaction.An exclusive license may also include other provisions that play a role in structuring the overall payment. These are royalty advances, guaranteed annual minimums, and many others. All of these provisions are ways of reducing the financial risk for a licensor and giving the licensee an incentive to sell as many licensed products possible. Figuring out the payment provisions and addressing all financial concerns in a license should be done in the context of all the other business terms of the license (discussed in the following chapters).What is the Term of the License?The next issue that must be decided is the term of the license-in other words, how long the licensing transaction will last. Determining the right term for a license-as well as the conditions for termination (see next section)-is critical for both parties. Each party's obligations and commitments under the license will be fixed and unchangeable for the duration of the term. If the situation licensing arrangement turns out not to be advantageous for one of the parties, the party is still stuck with the license.Example 1: If a licensee must pay $5,000 per quarter for a software license, it mustcontinue to make these payments throughout the license's entire term, regardless of its finances, its changing needs, or changes in the structure of the industry.Example 2: If a trademark owner licenses a trademark in an exclusive license to last fiveyears, it will be stuck with one licensee (for better or worse) for the entire five-year period.In produce and sell licenses, the licensor and licensee will likely have different views as to what the term should be. A licensee will generally seek a longer term, so it can take more time to recover its initial investment. A longer term will also give it the opportunity to make as much money as possible from the licensed intellectual property. A licensor, on the other hand, will probably want a shorter term. It will first want to see if the licensee's product is successful, and in the event it is, have the option of increasing the royalties due under the license.In a license in which the licensee merely receives the right to use the licensor's intellectual property, the licensee does not make an initial investment, and therefore may try to negotiate for a shorter term. This will give it more flexibility to test out the licensed product and get rid of it if the licensee is not satisfied.What are the Conditions for Termination?Along with the term of the license, the parties must decide whether the license agreement may be terminated before its expiration, and if so, under what conditions.NOTE: Remember that termination means termination at the behest solely of one party. If licensor and licensee both wish to terminate the license at the same time, they can always do this, regardless of the termination conditions in the license agreement. This is an extension of the general principle that parties may decide whatever they want vis--vis a contract as long as they are in agreement.As discussed earlier, termination conditions in the license work hand-in-hand with the license term. This makes sense as early termination effectively shortens the license term. For instance, if one or both parties have the right to terminate the license at any point during its term, the license term as stated will have less of an impact on the parties.In a typical license, each party generally wants a broad right to terminate the license for itself (and simultaneously wants to limit the other's termination right). The more conditions under which a party can terminate a license, the more flexibility and control that party has. In this sense, the right of termination is a type of power a party has during the license term. Termination conditions can be quite varied and are often tailored to the diverse license agreements that exist. However, virtually all can be categorized into three different groups:1. material breach;2. failure to meet specified business standards; and,3. convenience (also known as at-will termination).Termination for Material BreachTermination for material breach is virtually a standard condition for most license agreements. In most licenses, the licensor and licensee are each able to terminate the license if the other party materially breaches any of its obligations.Termination for breach conditions are usually stated with what is known as a cure provision. This gives the breaching party a chance to solve the problem (within a given amount of time) before the other party may terminate. For example, in the above scenario, the software licensor might have thirty days to provide the required support after being notified by the licensee. A license that allows for termination for material breaches only could be characterized as a fairly strict license. Because material breaches are serious violations of a party's obligations under a license agreement, termination for material breach does not necessarily give the other party much freedom to terminate the license when it wants to. Once such a license is signed, there is no way for one party to leave the licensing relationship before its natural expiration. Therefore, there is a certain amount of risk involved in signing this kind of license.Termination for Failure to Meet Business StandardsA license may also contain termination conditions for a party's-usually the licensee's-failure to meet agreed-upon standards. Such standards typically involve the licensee's sales of a minimum amount of its manufactured product. This type of termination condition is frequently inserted into a license in order to reduce the licensor's risk and to provide an incentive to the licensee to maximize

sales.Termination for ConvenienceAt the opposite end of the spectrum from a license with no termination conditions is one in which licensor or licensee (or both) have the right to terminate at any time for any reason. This is also referred to as an at-will termination, or a right of termination for convenience. This is the broadest type of termination right. If only one party has this kind of termination right, it will have a significant advantage over the other during the license term. If both parties have this right, the license will be considered quite flexible, as either party can basically leave the license at any time. The rationale behind a termination for convenience is to reduce risk for one or both parties.It is important to point out that a license can contain any combination of these termination conditions. However, a party's overall right to terminate is measured by the broadest of its termination rights. Therefore, if a party may terminate for breach as well as for convenience, then the much broader termination for convenience will define that party's right.In addition to termination conditions, the license will also contain certain obligations (mostly for the licensee) that will survive the termination of the license. These are known as post-termination obligations. Additionally, the license will specify that certain of its provisions will continue indefinitely (or for a given amount of time) after the license agreement's termination. These are the surviving provisions.Will any Services be Performed?The primary purpose of a license is to allow a licensee the right to use intellectual property for a specific purpose, typically for a limited duration. Along with such use, the licensor and licensee may also agree to perform certain services as part of the licensing transaction. In some cases, these service obligations will increase the value of the intellectual property or the license as a whole. In certain industries, the performance of services may even be expected as common practice. For instance, certain types of software and patent licenses will typically contain maintenance service provisions on the part of the licensor to install, repair, and maintain the licensed property.Service provisions can vary from simple to complicated, depending on the type of intellectual property, the complexity of the license arrangement, and the particular needs of the parties. In some cases, service means nothing more than answering the licensee's technical questions. In others, it could mean an ongoing obligation to maintain, repair, and provide future versions of a product. Remember, however, that once service obligations are stated in a license, they become part of that party's obligations under that agreement. This means that failure to provide the required services may result in material breach of the license.Payment for any services in a license agreement can be made separately or can be added to the overall payment for the license rights. This will be a matter for the parties to negotiate, given the standards in their industry, as well as their prior agreements (if any). The licensee may even expect free technical maintenance or other services from the licensor. As with other terms of the license, the relative bargaining power of each party will determine fees and other financial considerations.