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Underground Licensing Profits Master Class

Master Class No. 6, February 23, 2010: Licensing Legalities

Richard A. Catalina, Jr., Esq.
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Outline/Notes

Dated: Tuesday, February 23, 2010

1. Introduction/History
2. Identify Key Terms
 - Licensee/Licensor. Licensor – the owner of the Intellectual Property (Licensed Product) who is granting the License (permission to Use) in exchange for payment/compensation (Royalties). Licensee – the party obtaining the License (permission to Use) the Licensed Product and the

party responsible for paying Royalties to Licensor in exchange for said Use.

- License. A permission to use an Intellectual Property right under defined conditions. Contrast: Assignment, which denotes transfer of title; a license denotes only a permission to use within a defined time, context, market line or territory (among other conditions). Examples of other non-IP licenses: driver's license, hunting license, law license, fishing license, etc.
- License Agreement. The contract document setting forth the terms and conditions of the License between Licensor and Licensee.
- Grant of License. The actual permission granted, with specific terms and conditions.
- Royalty. The payment made by the Licensee in exchange for the rights conveyed by the Grant of License.
- Licensed Product. Extremely important to identify precisely what is being licensed.

3. Important Agreement Sections (Yanik's Outline)

- Performance guarantees. Typically defined in the "Royalty" section as the "Annual Minimum Royalty."
- Renewals (automatic v fixed)
- Terms
- Exclusive v. non-exclusive
- Scope/limitations of license (*i.e.*, carve outs, regional, marketplace specific).

4. Important Agreement Sections (Richard's Outline)

- Recitals – important to set forth Parties' intentions where it would not be appropriate to do so in the main Agreement.
- Definitions Section. I am HUGE on a well developed Definitions Section; makes the balance of the Agreement (terms and conditions) easier as all important terms have been defined. Define with precision and accuracy.
 - (a) Authorized Licensee Modifications
 - (b) Licensee Product (Standalone or Bundled
 - (c) Bundled Product

- (d) Confidential Information
- (e) Licensor Property
- (f) Customer
- (g) Derivative Works
- (h) Distribute and/or Distribution
- (i) Effective Date
- (j) Gross Sales or Sales
- (k) Limited Use Period
- (l) Intellectual Property
- (m) Licensed Product
- (n) Media or Medium
- (o) Standalone Product
- (p) Third Party Access
- (q) Updates
- (r) Use

- Grant of License. The heart of the License Agreement.
 - (a) World-wide or geographically limited
 - (b) Exclusive or non-exclusive
 - (c) Perpetual or limited term
 - (d) Limited right or full right (*e.g.*, limited to work into further product (personal Use), or full right to Use and Distribute)
 - (e) Updates included?
 - (f) Third party access prohibited
 - (g) Reservations of rights/ownership

EXAMPLE OF GRANT OF LICENSE PROVISION:

2. PRODUCT LICENSE GRANT.

A. Grant of License. Subject to and in accordance with the terms and conditions of this Agreement, Licensor makes the following grant of license (the “**Grant of License**”) to Licensee:

(i) **Grant of License.** In accordance with the payment terms and conditions of Section 6 of this Agreement, Licensor grants to Licensee a world-wide, non-exclusive, fully paid and perpetual right and license (the “**Grant of License**”) to: (1) Use the Licensed Product, and any related Licensor Intellectual Property licensed hereunder, and to make Authorized Modifications thereto, and combine, include, incorporate and/or integrate Licensee Intellectual Property therewith, (2) Copy and Distribute and/or have Copied and Distributed, directly or indirectly, the Licensed Product, and any related Licensor Intellectual Property licensed hereunder, to Customers, and to sublicense the rights to Copy and Distribute the Licensed Product, and any related Licensor Intellectual Property licensed hereunder, to any third parties by any means of Distribution and (3) Copy and Distribute, directly or indirectly, any Updates to the Licensed Product, and any related Licensor Intellectual Property licensed hereunder, and to sublicense the right to Copy and Distribute such Updates to any third parties by any means of Distribution.

* * * * *

- Sublicense by Licensee. Specific terms and conditions of the Sublicense rights conveyed in the Grant of License.
- Representations and Warranties. Usually mutual – both Parties render various representations and warranties as to ownership, Use and restrictions on Use. The Licensor will always represent and warrant that it is the rightful owner of the Intellectual Property being Licensed as the Licensed Product.
- Protection of Confidential Information. Usually mutual in terms and conditions, but not always.
- Royalties and Fees. Important Section. Defines the terms and conditions of the Royalties and/or Fees to be paid by Licensee to Licensor. More

extravagant tiered Royalty provisions/charts are usually appended as a Rider to the main Licensing Agreement.

- (a) Upfront, one-time payment v. running periodic royalty terms (or both)
 - (b) Royalty rates. Typically a percentage of Gross Sales, not net profit.
 - (c) Royalty Period. The accounting period during which a Royalty will accrue. Typically quarterly, but can be any period of time.
 - (d) Royalty Worksheet. The Royalty calculation worksheet, usually attached as a Rider to the Licensing Agreement, that Licensee is required to complete, sign and swear under oath (declaration) as to the Royalties due to Licensor for a particular Royalty Period. Usually due within 30-60 days after expiration of the Royalty Period and called a Royalty Report (*e.g.*, “Quarter 1 2010 Royalty Report”).
 - (e) Offsets/Credits>Returns.
 - (f) Consequences for Late Royalty Report and or Royalty Payment. Interest, penalties, etc. Suspension of Grant of License rights in the event of significant delay. Liquidated damages.
 - (g) Annual Service Fee. Usually for providing continued support throughout the license term. Paid annually.
- Limited Warranties. Licensor usually warrants nothing, other than its ownership in and to the Intellectual Property/Licensed Product.
 - Exclusion of Incidental, Consequential and Certain Other Damages.
 - Indemnification. Typically limited to IP rights issues, *e.g.*, Licensor agrees to indemnify Licensee for any claims brought against it because Licensed Product infringes Intellectual Property right of third party.
 - Notices. Where all “official” notices should be sent (and how) concerning any issue arising under License Agreement.
 - Compliance with Laws
 - Taxes.
 - Choice of Law. Always a battle as between the lawyers.
 - Limitations on Decompilation, Disassembly, and Reverse Engineering.

- Marketing. Specific marketing requirements, requirements (or limitations) as to Use of Licensor Trademarks, etc.
 - Requirement to Commercialize Licensed Product. In addition to Annual Minimum Royalty, certain commercialization requirements should be made of Licensee, even in instances of a non-exclusive License. Quota of number of units to be sold annually, etc., otherwise License will terminate.
 - Accounting and Right to Inspect Books and Records.
 - Force Majeure. In every contract ever drafted by a lawyer. Neither Party is responsible for any delay or failure in performance of the License Agreement because of war, riots, nuclear blasts, acts of God, strikes, etc.
 - Termination of the Agreement. Critical. Often overlooked by most lawyers. Set forth the bases for Termination, the process of Termination **AND** the obligations of the Parties in the event of Termination. Can Licensee continue fulfilling orders (contractual obligations)? For how long? What happens with unused inventory?
 - Survival. Identifies those Sections of the License Agreement that survive Termination and continue to obligate the Parties. Examples: Protection of Confidential Information, Choice of Law, etc.
 - Assignment. Restrictions on, or terms and conditions for permitting, the Assignment of the License Agreement by Licensee to third party. Usually quite limited. Typically requires the express written consent of Licensor.
5. Do we want to significantly limit what a licensee can sell and where as a licensor so we can license multiple facets? Very fact sensitive and depends on the business, the nature of the Licensed Product and other highly important factors. Generally, no. However, with International concerns, you may want to consider granting exclusive territorial rights. Format and medium may also be a consideration. Example: License the Licensed Product for Use ONLY as a live presentation to someone who already excels at that for a living; don't license it to that person to sell on the web (e.g., Anthony Robbins). On the other hand, you would not want to License the Licensed Product to someone for live presentation who has never done that before. Look at the Licensee's strengths and limitations and license accordingly.
6. Determination of Royalty Rates. Again, very fact sensitive. Rates are published annually for numerous industries and products. *E.g.*, Aspen Publishing, Licensing Royalty Rates, Battersby & Grimes (expensive, but worth it). I always try to also obtain an upfront good faith payment (lump sum, not to be used to offset future Royalties) by for licensor clients.

7. Policing and Enforcement. Be very, very vigilant of your Licensee (really, be very, very vigilant as to all your IP – the law requires a certain level of vigilance, and if there is infringement, you need to act fast to preserve rights). Most License Agreements provide Licensor the right to conduct periodic inspection of Licensee’s books and records to ensure all Royalties due are being reported and paid (at Licensor’s expense). Typically, if there is a shortage by a certain percentage – more than *de minimis* or nominal – then Licensee will be required to pay Licensor’s professional’s fees, possibly a premium as a penalty.
8. Biggest Pitfalls with Licensing. Poorly drafted License Agreements. Failure to take immediate action when required. Failure to properly vet and qualify Licensee. Failing to precisely define the Licensed Product and the permitted Uses, including Derivative Works and other Authorized Modifications (or Unauthorized Modifications).
9. Licensing v. Franchising/Certification. Very generally, with Licensing, the Licensor is simply permitting the Use of its Intellectual Property by a third party, under certain terms and conditions in exchange for a fee. With Franchising, the Franchisor supplies the actual business package and dictates how the Franchisee will sell the Franchisor’s products. The Franchisee must buy all supplies, inventory, etc. from Franchisor and has no right to Use it as it sees fit. However, the Franchisor will do all of the marketing, advertising, etc., which is not the case with a License arrangement. In addition, the Franchisee is more of an agent of the Franchisor; with Licensing, that is not the case. Franchise arrangements are typically more onerous on the Franchisee, but not always. A Franchise arrangement is closer, more like a one-sided partnership.
10. Exciting New Projects:
 - Success Manual – the Internet’s largest repository of FREE, high quality, self improvement, personal development and SUCCESS Ebooks. More than 400 Classic works have been obtained from the public domain. Looking for JVs, List Builders, etc. www.successmanual.com
 - The Internet Legal Advisor – new online legal resource center devoted to Intellectual Property, Internet Marketing and Web 2.0. Please visit to download your FREE Intellectual Property books internetlegaladvisor.com
11. Audience Q&A