

License Grants

1. Elements of a license grant:
 - a. What is being licensed? (a software program, content, patent, manufacturing rights, trademark, mask work layout)
 - b. What can the Licensee do with the thing that is being licensed?
 - (i) use (internal use only?)
 - (ii) copy (software, content and trademarks) or make (hardware or widgets)
 - (iii) distribute or sell (directly or indirectly using multiple tiers of resellers) alone or as bundled or combined with another product
 - (iv) make derivative works (e.g. modify) (any kind of modifications or only modifications for a specific purpose e.g. to interoperate with another specific product)
 - (v) Can others copy or make on the Licensee's behalf (e.g. a contractor)
 - c. What IP rights are involved?
 - (i) Copyright: use, reproduce (have reproduced), create derivative works of, distribute, publicly perform, and display (also moral rights and fine arts rights)
 - (ii) Patent Rights: make, have made, use, sell, offer to sell, and import
 - (iii) Trademark Rights: use on products or to advertise products
 - (iv) Mask Work Rights: reproduce, have reproduced, import, distribute chips embodying the mask work
 - d. What is the term of the license?
 - (i) A specific number of months or years
 - (ii) Perpetual (continues so long as agreement or license is not breached; may survive termination of the agreement)
 - (iii) Irrevocable (the license cannot be revoked even if it is breached; the Licensor must sue for damages and may seek injunctive relief)
 - e. Is the license non-exclusive or exclusive?
 - (i) "Non-exclusive" typically means the Licensor may grant other Licensees the same or similar license for the same item
 - (ii) "Exclusive" does not have a specific legal definition and must be defined in the agreement. It could mean any one of the following:
 - (A) only the Licensee can have the license to the item (even excluding the Licensor)
 - (B) only Licensee can have the license, but the Licensor may continue to use it
 - (C) the exclusivity only applies to a certain territory, market, or for a specific period of time.

(D) The term exclusive is used to make the Licensee feel good, but in reality a non-exclusive license is granted because it has so many exclusions (e.g. pre-existing licensees; excluded types of customers or accounts; OEM licenses are excluded; licenses for modified products are excluded, etc.)

- f. Are there sublicense rights?
 - (i) Sublicense rights could simply mean distributing a copy of software to end users or using subdistributors to sublicense copies of the software to end users.
 - (ii) Or, it could mean allowing the Licensee to have its own Licensees with the same rights granted to the first Licensee. The second possibility has many implications that must be considered: (A) do royalty payments of all Licensees flow back to the Licensor; (B) do ownership or license rights to modifications flow back to the Licensor; (C) how does the Licensee monitor trademark quality, etc. NOTE: Broad sublicense rights are not common, except with respect to the granting of “bald” patent licenses.
- g. Are there territory or market restrictions?
- h. What are the license fees and when are they collected?
 - (i) A one-time, paid up fee (for a perpetual or term license)
 - (ii) A one-time use fee
 - (iii) A running royalty based on gross or net revenues
 - (iv) A per copy feeNOTE: Take into account Revenue Recognition Rules for software sales
- i. Do the Licensee’s affiliates or subsidiaries have the right to the license granted to Licensee? Generally, no other entity has the rights granted to the Licensee unless expressly granted. License can be granted to business units or divisions of a company. It is important to define who the “Licensee” is to avoid confusion.
- j. Is the license transferable or assignable?

License Restrictions

1. Why should a Licensor include restrictions? Isn't the license grant by itself sufficient to say what the Licensee's rights are? Maybe
2. Because there are so many variables and "gray areas", many Licensors also prefer to state what a Licensee cannot do to minimize ambiguities. Common restrictions in a software license are:
 - (i) The license granted herein is granted solely to Licensee, and not to any affiliate of Licensee.
 - (ii) The license granted herein does not authorize Licensee (nor may Licensee authorize any third party) to:
 - (a) copy, distribute, use or allow third party access to the Software, except as expressly authorized under this Agreement;
 - (b) decompile, disassemble, reverse engineer, translate, convert or apply any procedure or process to the Software in order to ascertain, derive, and/or appropriate for any reason, the source code or source listings for the Software (except, in the European Union, to the extent that such acts may not lawfully be prohibited) or any trade secret information or process contained in the Software;
 - (c) modify, incorporate into or with other software, or create a derivative work of any part of the Software;
 - (d) use, access or allow access to the Software in any manner to provide service bureau, time-sharing or other computer services to third parties;
 - (e) lease or lend the Software;
 - (f) disclose the results of any benchmarking of the Software, or use such results for its own competing software development activities, without the prior written consent of Licensor; or
 - (g) attempt to circumvent any usage limits or other license, timing or use restrictions that are built in to the Software. Customer is hereby notified that the Software may contain time-out devices, counter devices, and/or other devices intended to ensure the limits of a particular license will not be exceeded ("Limiting Devices"). If the Software does contain Limiting Devices, Licensor will ensure that Customer receives any keys or other materials necessary to use the Software to the limits of Customer's license.
3. Restrictions will vary depending on the IP rights involved (patents, copyrights, trademarks, etc.), the item being licensed, and the specific business deal. Restrictions should be made part of the license grant and not separate covenants.

4. To minimize the granting of any “implied” licenses, it is prudent to include a statement similar to the following:

“Licensee’s rights in the Software will be limited to those expressly granted in this [Agreement] [Section 2]. Licensor reserves all rights and licenses in and to the Software not expressly granted to Licensee under this Agreement.”

Note: it is better for a Licensor to refer to a specific section as containing the license grant so that the Licensee cannot argue that other sections of the license agreement contain implied licenses.

Examples of License Grants

Licensors – favorable

Example 1:

- 2.1 Licensors hereby grants to Licensee a perpetual, irrevocable, non-exclusive license to use and operate the Software for its ordinary business purposes.
- 2.2 The license granted to Licensee pursuant to Section 2.1 consists of the following rights:
 - a. Installation at Licensee sites and locations as Licensee may determine;
 - b. Access, storage, use, display and execution of the Software on any Licensee systems;
 - c. Use and execution of the Software on compatible software and hardware platforms;
 - d. Either (i) access the Software from multiple computers, or (ii) copy and distribute the Software internally, with Licensors's copyright notice and proprietary legends;
 - e. Use of the Software by consultants and agents of Licensee;
 - f. Making backup and archival copies of the Software; and
 - g. Making copies of User Documentation.

Example 2:

- 2.1 **Grant of License.** Subject to the terms and conditions of this Agreement, Licensors grants to Licensee a nonexclusive, nonsublicensable, nontransferable (except in accordance with Section ___ below [e.g. assignment clause]) [perpetual] license to use each copy of the Software for Licensee's internal use in the United States. If Licensors has granted Licensee a site license, then the terms and conditions of such site license are as set forth in an Exhibit to this Agreement and will prevail over any inconsistent terms in the Agreement.
- 2.2 **License Restrictions.** The license granted herein is granted solely to Licensee, and not, by implication or otherwise, to any parent, subsidiary or affiliate of Licensee. The license granted herein does not authorize Licensee (nor may Licensee allow any third party) to: (a) copy, distribute, reproduce, use or allow third party access to the Software except as expressly authorized under this Agreement; (b) decompile, disassemble, reverse engineer, translate, convert or apply any procedure or process to the Software in order to ascertain, derive, and/or appropriate for any reason or purpose, the source code or source listings for the Software or any trade secret information or process contained in the Software; (c) modify, incorporate into or with other software, or create a derivative work of any part of the Software; (d) use, access or allow access to the Software in any manner to provide service bureau, time-sharing or other computer

services to third parties; (e) sell, offer to sell or otherwise provide for a fee access to Licensee events previously recorded using the Software; (f) disclose the results of any benchmarking of the Software, or use such results for its own competing software development activities, without the prior written consent of Licensor; or (g) attempt to circumvent any user limits or other license, timing or use restrictions that are built in to the Software. Licensee is hereby notified that the Software may contain time-out devices, counter devices, and/or other devices intended to ensure the limits of a particular license will not be exceeded (“Limiting Devices”). If the Software does contain Limiting Devices, Licensor shall ensure that Licensee receives any keys or other materials necessary to use the Software to the limits of Licensee’s license.

- 2.3 **Limited Rights.** Licensee’s rights in the Software will be limited to those expressly granted in this Agreement. Licensor reserves all rights and licenses in and to the Software not expressly granted to Licensee under this Agreement.

Examples of License Grant – continued

Possible Compromise

2.1 **License Grant.** Subject to the terms and conditions of this Agreement, Licensor grants to Licensee a [perpetual,] ~~irrevocable,~~—nonexclusive, nonsublicensable, nontransferable (except in accordance with Section ____ below [e.g. assignment clause]) license to use and operate the Software internally for its ordinary business purposes. The license granted to Licensee pursuant to this Section 2.1 consists of the following rights:

[insert specific statement of rights that are consistent with your product and your pricing model]

2.2 **License Restrictions.** Licensee has no right, and the license in Section 2.1 does not authorize Licensee, to transfer, sublicense or otherwise distribute the Software to any third party. Licensee may not, and the license in Section 2.1 does not authorize Licensee to: (a) modify, disassemble, decompile or reverse engineer the object code of the Software nor permit any third party to do so; (b) copy the Software, except for a reasonable number of backup copies; or (c) use the Software in any manner to provide service bureau, time-sharing or other computer services to third parties. [Include any other restrictions specific to your product, industry or business model]

2.3 **Limited Rights.** Licensee’s rights in the Software will be limited to those expressly granted in this Section 2. Licensor reserves all rights and licenses in and to the Software not expressly granted to Licensee under this Agreement.

Ownership

1. Will the Licensee own any derivative works or developments it creates or discovers using the licensed item? (Applies only if Licensee was licensed to create derivative works or use the licensed item for development.) Does Licensor get a “grant-back” of derivative works? Are new developments included in original license scope?
2. If Licensee is granted ownership of any derivative works or discoveries using the licensed items, then how will it affect Licensor’s ability to develop and enhance its products or technology in the future?
3. Jointly-owned technology: keep in mind statutory rights for jointly-owned IP rights (e.g. copyright – must account for profits; patents – may have to get consent of other owners for foreign licenses).
4. Payment for development work or the creation of an item usually does not convey ownership; ownership rights must be expressly granted in writing. (If not granted in writing, then shop rights or a one-time use right are implied or provided by state law).
5. Work-for Hire rights:
 - b. If a copyright work is a “work made for hire” the entity that commissions the work will be treated as the author. This is significant because if a work is not a WMH, then the author can terminate any assignment or license, notwithstanding any contract to the contrary, during a five year period beginning 35 years after the license or assignment (or 35 years after publication).
 - c. Works made by employees within the scope of their employment are automatically WMH – this differs from patent rights and trade secret rights, where the employee may retain those rights, subject to the “shop rights” for the employer, unless there is an inventions assignment agreement or the employee was hired specifically to make a certain invention.
 - d. Copyright works made by consultants or contractors will be WMH only if (1) the work fits within a limited number of categories (contributions to collective works or audiovisual works, translations, supplementary works, compilations, instructional texts, tests, test answers and atlases) and (2) there is a written agreement, which states the work is a WMH. If a work is not a WMH and there is not assignment, the hiring party may, at best, only obtain a non-exclusive license for use of the work for a particular, limited purpose implied by the circumstances (e.g. hiring a photographer).

- e. To avoid confusion, all employment and consulting agreements should state that if the employee or consultant obtains any rights in any work of authorship, then such rights are assigned to the company. Companies should consider whether consulting agreements should contain a WMH clause; the downside of doing so in CA is that such a clause will cause the consultant to be treated as an employee for unemployment and disability insurance purposes.

Representations and Warranties In a License Agreement

1. Ownership:
 - a. Does Licensor own all the technology?
 - b. Has Licensor licensed-in some of the technology from third parties?

2. Right to grant licenses and perform:
 - a. This is a combination of having the corporate authority to enter into the agreement and having the necessary IP rights – be careful if you are the Licensor. You may be inadvertently giving a non-infringement warranty.

3. Patentability and viability:
 - a. Can be difficult or impossible to rep & warrant for “bald” patents.
 - b. More appropriate for the license to make a patented product.

4. Non-infringement:
 - a. Can only rep & warrant as of the time the license is granted, because you can't predict the future.
 - b. Consider changing to a “knowledge” rep & warranty.
 - c. Always make the sole remedy for breach of this rep & warranty the IP indemnity provided by Licensor – if you are the Licensor.

5. Right to disclose information without violating third-party rights
 - a. This may appear in a non-disclosure agreement or the confidentiality section of the license agreement.
 - b. If Licensor's technology has any third party technology embedded in it, make sure Licensor has the right to disclose it as necessary to exercise the license rights granted to Licensor.

6. No need for other licenses
 - a. Sometimes a Licensee must obtain additional licenses from third parties in order to exercise the license granted to it by one Licensor. A product may be covered by multiple IP rights with different owners. This is common in the patent area.
 - b. This rep & warranty will smoke out the issue.

7. No adverse effects of foreign laws
 - a. If you are licensing to a Licensee in a foreign country, the Licensor may want to make sure that there are no foreign laws that could affect Licensor's IP rights (e.g. compulsory licensing)

8. Absolute vs. best of knowledge
 - a. Any rep & warranty can be qualified based on knowledge.

- b. An absolute rep & warranty is akin to product liability – it doesn't matter if you didn't know or had no way of knowing.
 - c. "Best of Knowledge" can be construed as having an obligation to research an issue. In the world of patents, few Licensors want to do patent searches to see if their products infringe a third party's patents.
 - d. "Actual Knowledge" may limit a Licensor's obligation to what was actually known, without further examination of the issue. Actual knowledge can be limited to the executives of the company to minimize exposure of the Licensor.
9. U.S. vs. international scope of representations.
- a. If Licensor is a U.S. company and Licensee is a foreign company, then Licensor will want to make certain representations that are specific to that country or region of the world
 - b. Does the foreign government have to approve the agreement?
 - c. Are there currency restrictions? (i.e. can Licensor get paid or get the money out of the country?)
10. Consider problems with making representations with respect to undeveloped technology. (Licensor must be careful about making reps & warranties about technology that is not yet developed or is not completed.)
11. Specific product warranties:
- a. Specify warranties and standard (documentation, specifications, etc.)
 - b. Time period
 - c. Remedies for breach (is there a sole remedy for breach? Product repair or replacement, refund of payment, IP indemnity, etc. or can Licensee sue Licensor for breach?)
 - d. Materiality standard
 - e. Regulatory representations/warranties
12. Disclaimer of other express warranties and all implied warranties provided in the UCC (merchantability, non-infringement, fitness for a particular purpose, course of dealing).

Intellectual Property Indemnity

1. Should you grant an indemnity to the Licensee?
 - a. Has the Licensee paid the Licensor enough money to justify an indemnity?
 - b. What IP rights are covered by the indemnity?
 - (i) Patent rights: patent rights can be innocently infringed and are often the “wild card” in an indemnity. Always consult with patent counsel when granting a patent indemnity
 - (ii) Copyrights: copyrights cannot be innocently infringed because the first element of a copyright action is that the item was “copied”. Beware of new hires who think they are doing you a favor by “coping” your competitor’s software and including it in your code based.
 - (iii) Trade secret rights: they are like copyright – they cannot be innocently infringed. Again, beware of new hires who may think they doing you a favor by telling you the secrets of their former employer
 - (iv) Trademark rights: If no trademark rights are granted, then don’t indemnify for it
 - (v) Other IP rights: As a Licensor, try to be specific about what rights you are indemnify for; foreign countries may have different rights (publicity, privacy, etc.) that are not recognized in this country. If you are the Licensee, get an indemnity to cover as much as possible.
 - c. What countries’ IP rights are included? Patent rights are the most contentious issue.
 - (i) The Licensee wants a worldwide patent indemnity, and the Licensor wants to grant only a U.S. patent indemnity.
 - (ii) Try to limit the patent indemnity to: countries where the Licensee is granted rights to use or distribute, major industrial countries where most of the distribution will take place, where the Licensor has offices, or where the Licensor has filed for and been issued patents.
2. Who should be covered by the indemnity?
 - a. Licensee, affiliates, customers, sublicensees?
 - b. Try to limit to Licensee. The Licensee (if authorized to distribute) must grant its own IP indemnity to its customers and should not require the Licensor to take on this burden.
3. What should the indemnity cover?
 - a. All damages incurred by the Licensee?
 - b. Only amounts awarded?
 - c. Attorneys’ fees for defense and settlement?

4. Does the indemnity apply if the Licensee was in breach of the agreement? In breach of the license grant?
5. Will the Licensor pay for indemnified amounts if they exceed the limitation of liability clause in the agreement?
6. What exclusions apply to the indemnity?
 - a. Combinations with other hardware or software?
 - b. Failure to use updates or upgrades designed to avoid infringement?
 - c. Modifications made by Licensee that caused the infringement?
 - d. Compliance by Licensor with Licensee specifications?
7. Should Licensee indemnify Licensor for any IP issues?
 - a. All the exclusions in Licensor's indemnity?

Limitation of Liability

1. Disclaimer of consequential and indirect damages.
 - a. Adding a disclaimer of consequential and indirect damages is common in most agreements. Should you do so in a license agreement?
 - b. The Licensor should exclude certain kinds of breaches from the disclaimer of consequential and indirect damages because they involve lost profits and, in some instances, unforeseeable damages:
 - (i) Breaches of the license grant or restrictions
 - (ii) Infringement of the Licensor's IP rights
 - (iii) Breaches of confidentiality obligations
 - c. The Licensee will often push back on these exclusions, but not as much today as 10 years ago. Some Licensees argue that a breach of the license is a direct damage and can simply be measured by paying a per copy license fee. The validity of this argument depends on what IP or item is being licensed.
 - d. Note that most Nondisclosure Agreements do not disclaim consequential and indirect damages. The reasoning behind this should be carried over to license agreements that include confidentiality obligations (which most do).
 - e. Some foreign jurisdictions require that damages for personal injury and fraud be excluded from the disclaimer of consequential and indirect damages.

2. Direct damages limit.
 - a. Should there be a limit on direct damages? It depends on the type of agreement and whether or not you are the Licensor or Licensee, and the specific obligations each party has under the agreement. The exclusions to a disclaimer of consequential and indirect damages are also often excluded from a limitation on direct damages.
 - b. If there is a limit, it usually has some reasonable relationship to the value of the contract (e.g. license fee paid, royalties paid in one year, a multiple of one of these).
 - c. Some foreign jurisdictions require that damages for personal injury and fraud be excluded from a direct damages limitation.

Assignment of License Rights and IP Rights

1. General Rule: contracts are freely assignable
2. Exceptions to General Rule: contracts are not assignable when:
 - a. Contract terms expressly prohibit assignment
 - b. Contract involves obligations of a personal nature or involve a relation of a personal confidence
 - c. There is a public policy against assignment
 - d. Contract is coupled with liabilities
 - e. Contract is a non-exclusive patent license
 - f. Contract is a non-exclusive copyright license
 - g. In a license agreement, there are two “assignments” that must be considered:
3. Non-exclusive Patent and Copyright Licenses
 - a. Federal law governs the assignability of patent and copyright licenses and federal law states that these licenses are personal and non-assignable without the patent holder’s or copyright owner’s written consent
 - b. Exclusive patent and copyright licenses may be assignable because the granting of exclusive rights gives away the owner’s monopoly – but there are no federal decisions on this issue that I am aware of.
4. Over time, some courts have ruled that assignment of rights occur through a change of control of a company (i.e. reverse triangular merger). However, these are not illegal if it does not adversely affect the party benefited by a prohibition against assignment. However, federal copyright law is still applicable when there is a transfer of a non-exclusive copyright license during a change in corporate form, and the copyright license is still not assignable. (this likely also applies to non-exclusive patent licenses)
5. Federal law governs IP rights and the assignment of IP rights.
 - a. Copyright assignments for exclusive licenses must be in writing. These assignments must be recorded to effect priority.
 - b. Patent assignments must be in writing
 - c. Mask work assignments must be in writing
 - d. Trademark assignments must be assigned with their “goodwill.” The assignment of a federal registration must be in writing.

Term and Termination

1. What is the term of the license? (perpetual, years, months, one-time use?)
2. What happens when the agreement terminates?
 - a. If a perpetual license was granted, then should it survive? The answer may depend on what caused the termination.
 - b. If an irrevocable license was granted, then the license cannot be terminated until the end of the term (which could be perpetual).
3. Can the Licensee retain the licensed item for any purpose?
 - a. If Licensee distributed technology to end user customers, consider allowing the Licensee to retain some information and technology to provide maintenance and support its customers (if Licensee is competent and is not in material breach of the agreement)
 - b. If Licensee is the end user, then Licensee should not be allowed to retain any technology or confidential information.
 - c. If the license grant allowed Licensee to modify the technology, consider whether any grant-back licenses survive.

Escrow and Bankruptcy-Related Issues

1. Escrow Issues
 - a. Should a source code or technology escrow be established?
 - b. Under what circumstances should the escrow be released to the Licensee?
 - c. What can the Licensee do with the escrowed materials that are released?
 - d. Are license fees due? (for the release of the escrowed materials or for what Licensee does with the escrowed materials?)
 - e. How long can the Licensee use the released materials? (for the remaining term of the license agreement or forever?)

2. A Bankrupt Licensor
 - a. The Bankruptcy Code allows certain Licensees to retain their rights in IP licenses despite the Licensor rejecting the license agreement. (11 USC 365(n))
 - b. Section 365(n) only applies to executory contracts.
 - c. The term “intellectual property” has a special meaning under the Bankruptcy Code and is limited to trade secrets, U.S. patents and patent applications, U.S. copyrights and U.S. mask works. It does NOT apply to trademarks.

3. A Bankrupt Licensee
 - a. Can the Licensee continue to pay? If Licensor does not have a termination right, then Licensor may be responsible to continue performing its obligations without receiving payment.
 - b. Licensor may also want to prevent the Licensee from assigning the license to a third party. Non-exclusive patent licenses may not be assigned without the Licensor’s consent; some think the same principle applies to copyright licenses.

4. Drafting Techniques
 - a. Because 365(n) provides significant protection to Licensees, some attorneys believe that Licensees should make sure the license explicitly references the statute.
 - b. The license can also state that in the event of the Licensor’s bankruptcy, the Licensor must deliver the licensed IP and any embodiments of the licensed IP so that the Licensee may continue to receive the benefits of the license agreement. Some attorneys use this and an escrow agreement to ensure that the Licensee is protected. Use of the Bankruptcy Code provisions to obtain licensed IP can be swifter than waiting for the release of an escrow.

Foreign Issues

1. Withholding tax for royalties and license fees (5% - 35% of the license fees paid). Either gross up license fees owed to cover the tax, or a multi-national company may be able to deduct the tax against foreign income paid.
2. Foreign Government approvals of contracts are not as common as 10 years ago, but still exist in Asia and South America.
3. Termination indemnities for distributors are common in South American countries and in some European countries. The indemnity is often a statutory formula that is based on (a) the number of years the distributor has been your distributor or the length of the agreement with the distributor, and (b) the amount of revenue generate by the distributor for the Licensor
4. Governing law and public policy issues. Generally, most developed countries will honor the governing law in an agreement, except for public policy reasons.
5. Mandatory warranty periods for consumer products. Most countries have consumer laws that will prevail over any terms in a contract. If the license agreement is a business-to-business agreement, then generally these laws will not apply.
6. Enforceability of proprietary rights can be an issue in developing countries, China, South Korea, Eastern European countries, and some South American countries. Licensors may choose not to license to Licensees in these countries. While there may be laws, they are not enforced. And, piracy and reverse engineering are serious problems.
7. Moral Rights. In many countries outside the U.S. (and increasingly in the U.S.) authors have one or more “moral rights. These include the right to have authorship acknowledged, the right to prevent distorting modifications of a work, the right to authorize publication and the right to withdraw authority to publish. Generally, moral rights cannot be transferred and, in many countries, cannot be waived in advance.