LICENSING INTELLECTUAL PROPERTY

I. The Legal Fundamentals Of Licensing

Licensing intellectual property to third parties allows a company to exploit and capitalize on its assets. A company should appreciate that licensing empowers businesses to overcome constraints (e.g., capital, manufacturing capacity, research and development capacity, market knowledge, distribution, or trademark and patent protection, or limited employees) sooner and faster than they could otherwise, making them more competitive. Before licensing intellectual property, a company should fully understand their intellectual property rights and applicable laws.

Patent, copyright, and trade secret laws have existed throughout the technology-rich history of the United States. Virtually every technology producer relies on intellectual property laws to preserve some advantage over others for some time. Technology producers decide how to exploit that technology by evaluating profit potential. A company may solely use their technology within the organization; however, licensing intellectual property rights is often the most advantageous to the organization. Furthermore, the price and terms of licenses are unique to each license because each bundle of licensed rights are unique. Owners and licensees of intellectual property rights try to understand and take advantage of the incentives a license may create.

For the last two hundred years, the United States has had patent, copyright, and trade secret laws to create private rights to technological information. Intellectual property law does not compel an owner to license. Intellectual property law permits licensing. The decision to license is left to the owner. Intellectual property law also permits the owner of a particular patent, copyright, or trade secret to license some of the rights and withhold a license to others.

For about the last one hundred years, the law has also regulated licensing the rights. The best and simplest way to understand intellectual property laws is to view those laws as attempts to increase investment of resources in producing information (patents and trade secrets) or in disseminating information (copyrights). A license authorizes a person, usually called a licensee, to do things that would violate one or more of the rights. The rights are violated by certain activities of people or companies. A license provides the owner's authority for the licensee to act in ways that would otherwise be infringement.

II. Developing And Implementing A License Plan

In undertaking a licensing program for new and/or current technology, one should initially analyze the impact of that technology on every market where it will be used. This is purely a marketing and business endeavor. Intellectual and intangible assets represent the industrialized world's most under-valued group of assets. Trends that drive the need for accurate identification, leverage and valuation include the following:

- Increasing globalization of the business community,
- A need to maximize return from all assets, not just tangible assets,
- Expanded global marketing,
- Expanded global use of intellectual property such as trademarks, brands, and patents,
- Increasingly competitive corporate environment, and
- A growing awareness that protection of these increasingly valuable assets is critically important.

As an example of the increased leverage and use of intangible assets in the U.S., just look at the growth in licensing of technologies, software, trademarks and brands. As a whole, U.S. companies are approaching half a trillion dollars in licensing sales revenue annually. In the area of trademark licensing alone, growth has been explosive in the U.S., Europe, and Asia. In 1968 retail sales of products using a trademark license amounted to approximately to $8 billion; in 1978, 419 billion; in 1988, $60 billion; and, in 1998, $85 billion; and the global market is estimated to be between $130 billion and $150 billion at retail, annually. Of that total, branded licensed products account for 26% of the total, or roughly $35 billion per year in retail sales.

In other words, the world recognizes that intellectual property is a proven way to generate revenues and above-average profit margins. But as with anything in business, increased profits and sales don't just happen. Shrewd investment and strategic planning are essential to maximizing the value of intellectual property. When research and development efforts result in the discovery of ideas, a company must first get legal protection for these ideas through the four areas of intellectual property law – patents, trademarks, copyrights and trade secrets. Once protected, the intellectual property must be strategically managed and enforced. Intellectual property can generate profits by using IP to maintain exclusivity in the market, by generating profits through the use of licensing, and by using litigation against the unauthorized use of a company's intellectual property.

Companies invest greatly in the development of intellectual property with the expectation that their investment will generate a return. However, for patents and trademark, the quality and commitment is usually more important the quantity. As with trademarks and patents, the extended life of trade secrets and copyrights makes a company's investment in developing them even more worthwhile. Trade secrets can have an indefinite life as long as the proper steps are taken to protect them.

An intellectual property audit is the necessary first step on the road to successful intellectual property management. In conducting an intellectual property audit, a company should identify intellectual property that is essential to its business, as well as other rights that may be irrelevant to its core operations. Companies should not overlook the latter as they are often a source of profit. For example, a company that primarily sees itself as a chemical company may nonetheless hold valuable trademarks in other areas; these can be used to generate licensing fees or enforce the minimum content of licensor-provided materials. Exhibit 1 categorizes intellectual assets – each has real and verifiable value, varying from company to company. It cannot be said enough that the process of identifying and using these assets effectively are crucial to the growth of an organization.

If the company does not already have one, it should create a database of all marks it owns worldwide, followed by a business review of which marks are or may be valuable. For patents, the database should be coordinated with technical and business personnel. The goal is to determine which trademarks and patents are valuable for exclusivity and which for licensing. A trade secrets database should similarly identify whether individual trade secrets are valuable for licensing as know-how or for exclusivity. Additionally, a review should be conducted of the confidentiality provisions in a company's employment contracts and the physical security procedures in place to protect them. Failure to protect trade secrets will render them unenforceable in court. These are the minimum steps necessary to identify existing intellectual property. As for the creation of new intellectual property, the legalities vary depending on the type of property. This section will not go into the legalities.

Once IP has been created and maintained, the focus can shift to maximizing its value in order to increase profits. One way to accomplish this is by licensing. One of the first steps in determining which intellectual property to license involves identifying the intellectual property for which the business units do not require exclusivity, but which may be valuable nonetheless. Not only must the company take into account the type of intellectual property, but the company's strategy and the market as a whole. Then, the terms of a licensing program should be determined. Once the licenses are drafted, a program should be implemented to track the licensee's compliance with the licensing agreement. This task could be run by business groups or set up as a separate licensing profit center/group. Nevertheless, key elements of the license should be tracked such as payment obligations, service obligations, term, and termination.

III. Business Considerations In Drafting Licensing Language

License agreements can be broken down into three parts: (1) defining the parties' rights; (2) defining the parties' obligations; and (3) defining the parties' remedies when the obligations are breached. Cross-border licensing as a rule complicates things due to different laws, languages, and cultures so adequate time should be given to drafting and negotiating. However, even before drafting a license agreement, business decisions must be made. Eight key business considerations in licensing are:

A. Whom To License

The licensor wants a licensee with sufficient capabilities. These include sufficient personnel to handle the license as well as sufficient financial resources. Sufficient expertise in the relevant areas (or the ability of licensor to teach this) also is necessary. Last, but by no means least important, is the trustworthiness of the licensee. Proper selection and nurturing of licensees is crucial for the success of a licensing system.

B. License Grant

The actual grant of the license should be narrowly tailored to the precise product(s) and/or service(s) being contemplated and not for use in combination with other products. The license agreement needs to clearly identify what it is that is being licensed, i.e., what trademarks and/or technology the licensee may use. The owner should retain all rights to use its trademarks, copyrights, and patents as it chooses, including licensing the mark to others.

C. Territory

What area will the licensee receive? The agreement should specify the precise countries covered by license. If the grant includes territories outside the United States, the agreement should require that, prior to entering into new markets, adequate notice will be given to the company so that (a) the company may determine whether it may exercise intellectual property rights in the particular country; and (b) the company may protect its rights, including, but possibility not limited to, trademark rights by filing a trademark application in each country, and, if necessary, file the license agreement with appropriate government bodies.

D. Exclusivity

Is the license exclusive, or will there be various licenses in the territory?

E. Term and Termination

How long a license will the licensor grant, and will they provide for any renewal terms? The license agreement should specify the term and means for the company to terminate the agreement. Where possible, avoid automatic renewal provisions so that the company has maximum flexibility with its intellectual property rights. Grounds for termination should include at least the following:

- Bankruptcy; change of ownership; unauthorized assignment of license agreement;
- Breach of the agreement; and
- Poor publicity with respect to either the licensee or the products sold by the licensee.

Disposition of the licensed goods on termination should also be considered. All sales literature and other promotional materials bearing the licensed trademarks should be destroyed. Should the license be terminated for cause (i.e., failure to produce products meeting company's specifications), the agreement should require destruction of all such products and a sworn declaration of such destruction so that substandard products do not enter the market through unapproved means.

IV. Acknowledgment Of All Rights In Marks, Copyrights, And Goodwill Associate With Marks

The licensee should acknowledge the company's rights in the trademarks, copyrights, and goodwill associate with the licensed mark(s) and that licensee will not apply to register in its own name any of the licensed marks. The agreement also should provide that licensee assigns to the company all rights in the copyrights associated with the licensed product(s) and that the company owns such copyrights. In addition, the agreement should require that the licensee execute all necessary documentation to perfect the company's ownership of the copyrights and that the licensee shall obtain all necessary assignments from those persons creating the copyrighted works.

V. Payment

Will the licensee pay an up-front fee? Will a royalty be paid during the license agreement? Are there minimum royalties or sales required? If international licenses are granted in which currency will the royalty be paid? The license agreement should specify the basis for computation of royalties and the frequency of royalty payments to the company. The company should monitor royalty reports, which typically are provided by licensees on a quarterly basis. While most license agreements provide for a right to audit licensee's records to ensure appropriate royalties are being paid, few companies actually exercise this right. It is advisable to retain third-party auditors to conduct royalty audits especially where sizable royalties are involved.

VI. Best Efforts

Are there advertising or marketing requirements that the licensee must meet? The licensee should commit to using its best efforts in marketing and selling the licensed products so that the products have a certain level of visibility. This will enhance the consumer and trade awareness, thus serving the purpose of the licensing program.

Different business and legal issues come up in the different subject areas of licensing – patent licensing, computer software and technology licensing, trademark licensing and merchandising, copyright licensing, multimedia and Internet licensing, domestically and internationally. When considering business issues, the type of intellectual property being licensed, and the owner's rights thereto, should be considered. Not all business decisions work for all types of intellectual property.

VII. Antitrust Issues In Intellectual Property Licensing Agreement

The overall purpose of Antitrust laws is to protect and promote competition. The theory is that the more competition that exists, the higher the quality of goods and services that are provided and the lower the prices. On April 6, 1995, the Department of Justice (DOJ) and the Federal Trade Commission (FTC) jointly issued *Antitrust Guidelines for the Licensing of Intellectual Property*, which established the agency's policies regarding when they will challenge practices involving licensing of patents, copyrights, and trade secrets on the grounds that they are anti-competitive. Although the Guidelines are not clearly considered to be dramatic departures from traditional antitrust analysis, they clarify enforcement policy with respect to licensing and place greater emphasis on preservation of competition in technological innovation. Some of the highlights of the Guidelines are:

Licensing agreements may be analyzed for their effects on competition in three possible markets:

• Markets for goods utilizing the IP;
• Markets for other technologies with which the IP competes; and
• Innovation markets – markets for researching development of new and improved products

The Guidelines apply both domestically and internationally, recognizing that international enforcement will be affected by jurisdictional and treaty matters. Most intellectual property licensing agreements are pro-competitive and will not raise antitrust problems.

The Guidelines add the concept of "innovation" to "price" and "quality" as key elements of antitrust analysis, emphasizing that consumers often want improved products and more features in addition to price and quality.

An intellectual property right, while excluding others from its use, does not necessarily confirm market power (because of, for example, the existence of close substitutes).

Some agreements may be deemed unlawful per se if they are shams intended to disguise price fixing, market allocation or an output restriction scheme.

Non-exclusive licenses will not raise antitrust concerns, as they do not contain constraints on the competitive conduct of the licensor or licensee.

The Guidelines establish "safety zones" in which licensing agreements will generally not be challenged, as when a licensing agreement is not facially anti-competitive and the licensor and licensees collectively account for not more than 20 percent of each relevant market affected by the license restraints.

Many Internet commerce-related transactions will entail licensing of some form of intellectual property. Most such transactions will be examined under the Rule of Reason. The Rule of Reason, under Section 1 of the Sherman Act, and supported by the Guidelines, makes unlawful all contracts, combinations or conspiracies that restrain trade. This has been interpreted by the Supreme Court to mean that contracts, etc., that unreasonably restrain trade are unlawful. Most of the antitrust juris prudence for the last 110 years has been a search for the dividing lines between "reasonable" and "unreasonable."

Currently, the United States government and courts seem committed to the premise that antitrust and intellectual property policies are and can be harmonized. The international marketplace, however, may be even less protective of intellectual property rights when the potential for a monopoly arises from their exercise. However, particularly with respect to computer-related technology, concerns over anti-competitive activities are criticized as more imagined than real. As some of the United States government's enforcement actions have demonstrated, monopolies in the hardware and software areas, if they truly exist at all, may be so transient that they do not even outlive the enforcement actions undertaken to remedy them. The ongoing Microsoft litigation is an example of this. This does not mean that antitrust laws should be taken lightly. Antitrust violations can result in significant liability, expensive litigation and disruption, and in certain limited circumstances, criminal liability. All businesses, whether conducting commerce over the Internet or entering into a traditional distribution agreement, should seek legal counsel to insure antitrust compliance.

VIII. UCITA – What Is It?

The Uniform Computer Information Transaction Act (UCITA) is the Uniform Commercial Code for software licenses and other computer information transactions. UCITA puts information age industries on a par with the sellers of goods, by codifying the legal rules applicable to contracts for their products. UCITA covers "agreements that deal with the creation, modification, access to, and distribution of, computer information," excluding financial transactions, audio or visual programming, movies, and sound recordings. It plays the same role for the software licenses that the Uniform Commercial Code plays for the sale of goods. Just as the UCC has been the backbone of commercial law in the manufacturing age, so will UCITA be the backbone of commercial law in the information age.

UCITA addresses all the standard contract issues that the UCC addresses for the sale of goods, including provisions relating to offer and acceptance of contract terms, warranties, transfer of contract interests, the rights and obligations of the parties in the case of a breach of the contract on applicable remedies. It also includes the roles on new issues relating to electronic contracts. Like the UCC, UCITA is a deep set of default roles – in general, parties are free to agree to the terms that they wish. UCITA fills in the rules on issues they do not address, as well as mandating some rules intended to protect consumers, mass-market licensees, etc. UCITA does provide legal rules for agreements covering all kinds of computer information, such as standard software licenses, contracts for the custom development of computer programs, a license to access an on-line database, and a web site user agreement.

UCITA does provide guidance on when and how shrink-wrap licenses[1] contracts are enforceable. UCITA §§ 112 and 209 do permit mass market licenses, but it will exclude from such contracts a term that is unconscionable or unenforceable, or that conflicts with the term to which the parties expressly agreed. The mass market shrink-wrap license is unenforceable unless:

1. You had reason to know that more terms would be coming;
2. You were given a right to return the product if you didn't like the terms;
3. Your right of return was cost-free; and
4. You were reimbursed any reasonable costs of restoring your system if it was altered when you tried to read the license terms.

If the licensee does not have an opportunity to review the terms in advance, the licensee can return the software for a refund.

As UCITA enters the Information Age, as does the ESIDE Act and EUTA, even further with the acknowledgment of "Electronic Agents," in §§ 107 and 206. Thus, in an automated means, program to provider response to a message on behalf of an individual can interact with others to form contracts. Recognizing the possibility of an electronic era, § 214 outlines the procedure by which a consumer can, in appropriate circumstances, rectify the error. The procedure requires that the consumer promptly notify provider of the error, return or destroy the information, and not use the information for any benefit of value.

The 21st century promises to be an exciting time for intellectual property licensing. As new laws, like UCITA, are adopted, which overlay the negotiated terms of agreements, it will become increasingly critical for the business person, along with their attorneys, to envision the impact of such laws on each transaction. Knowing, applying, and creating alternatives in the context of ever-changing technologies and ever-changing laws, will be a key to effective representation in business transactions.

[1] The term "shrink-wrap" refers to a contract that you do not see until after you initially agree to acquire a product and receive it. You might order a product over the phone or by mail: once it is delivered and you open the box, a contract might be contained in the box or in the start-up screen for the software. You are asked to agree to the contract by taking some act, such as clicking on an "I Accept" screen. In retail software licenses, a shrink-wrap is ordinarily a contract between the software publisher and the end-user; the retail vendor is not involved. In goods transactions, a similar transaction occurs with "in-the-box" terms that are normally read only after opening the box.

LICENSE AGREEMENT CHECKLIST

KEY CONTRACTUAL PROVISIONS OVERVIEW

- ❑ **RELATIONSHIP BETWEEN THE PARTIES**
- ❑ **LICENSE FEE AND ROYALTIES**
- ❑ **SCOPE**
- ❑ **SCHEDULE**
- ❑ **WARRANTIES**
- ❑ **DISCLAIMERS**
- ❑ **INDEMNIFICATION**
- ❑ **INSURANCE**
- ❑ **SOFTWARE OWNERSHIP ISSUES**
- ❑ **OBLIGATIONS OF LICENSOR:**
- ❑ **MANAGEMENT**
- ❑ **INFORMATION AND REPORTING**
- ❑ **MARKETING OPPORTUNITIES OUTSIDE LICENSE TERRITORY**
- ❑ **CONFIDENTIALITY**
- ❑ **TERMINATION**
- ❑ **STANDARD LEGAL PROVISIONS**
- ❑ **OTHER LEGAL CONSIDERATIONS**
- ❑ **ADDITIONAL INTERNATIONAL CONSIDERATIONS**

DETAILED CONTRACTUAL PROVISIONS CHECKLIST

- ❑ **RELATIONSHIP BETWEEN THE PARTIES**
  - ❑ Find Out Performance of Company or Its Owners in Past Product Licenses
  - ❑ Get References

- ❑ **LICENSE FEE AND ROYALTIES**
  - ❑ Net and Gross Revenue Definitions
  - ❑ Different Royalty Rates for Foreign Sales, OEM Channels, etc.
  - ❑ Royalty Calculations for Bundled Distribution
  - ❑ Royalty Rate for Distressed Sales
  - ❑ Royalty Rate for Promotional Distributions, Internal Uses
  - ❑ Stair Step Payment Schedules; Carryovers
  - ❑ Minimum Royalty (vs. Resale Price Maintenance)
  - ❑ Guaranteed Payments - Applied Against Royalties? In Lieu of Royalties?
  - ❑ Revenue Recognition/Characterization
  - ❑ Payment Schedule
  - ❑ Reports

- ❑ **SCOPE**
  - ❑ Term of the License
    - ❑ Commencement Date
    - ❑ Completion of License Term or Extension Arrangements
    - ❑ Platforms/Media/Fields of Use
    - ❑ Number of Uses
    - ❑ Copy Protection
    - ❑ Sequels and Derivatives
    - ❑ Distribution Channels

        - ❑ Testing and Approval Processes
        - ❑ Training
        - ❑ Product Support/Warranty Services
        - ❑ Customizations and Localizations

- ❑ Description of System/Product to be Licensed:
    - ❑ (Not Substance but Items or Components, Manuals, Trademark, Marketing Materials, etc.)
    - ❑ Other Areas to Consider
    - ❑ Copyrights
    - ❑ Mask Works
    - ❑ Trademarks/Trade Dress
    - ❑ Patents
    - ❑ Trade Secrets
    - ❑ Know-How
    - ❑ Publicity/Privacy Rights

- ❑ Definitions of Licensed IP or Products Created Under License
    - ❑ Review Exhibits Early and Often
    - ❑ Request for Proposals Included as Addendum
    - ❑ If Software, is Source Code Included?
    - ❑ Escrow
    - ❑ License
    - ❑ Rights to Future Versions of and Improvements to the Licensed IT

- ❑ Permitted Uses
    - ❑ Permitted Location of Use
        - ❑ CPU License (i.e., Number of Computers)
        - ❑ Backup Computers
        - ❑ Geographic Location, etc.
        - ❑ Trade Channels (e.g., Education Dealers, OEMs vs. Resellers)

    - ❑ Permitted Purpose of Use and Scope
        - ❑ IP Rights Granted (Make, Use, Disclose, Sell, Reproduce, Distribute, Create Derivative Works, Publicly Perform, Publicly Display)
        - ❑ Exclusive or Non-Exclusive
        - ❑ Non-Competition Clauses
        - ❑ Sublicensing Rights (Including Right to Grant Further Sublicenses)
        - ❑ Transferable or Non-Transferable
        - ❑ Perpetual or For Term (With or Without Wind-Down Periods or Other Extensions)
        - ❑ Revocable or Irrevocable
        - ❑ No Stand-Alone Distribution

    - ❑ Permitted Users
        - ❑ Affiliate Use (e.g., Corporate Spin-Offs, etc.)
        - ❑ Outsourcer

    - ❑ Prohibited uses
        - ❑ Sublicensing
        - ❑ Reverse Engineering
        - ❑ Decompiling, Disassembling, etc.?

- ❑ **SCHEDULE**
  - ❑ Immediate Steps In Commencing Project
  - ❑ Schedule for First Year
  - ❑ Three Year Projected Work Schedule
  - ❑ What Provisions Should Be Bounded By the Term? (Updates, Maintenance, License, Payments?)
  - ❑ Renewable or Nonrenewable (and Evergreen Clauses)
  - ❑ Renewal on Exclusive vs. Nonexclusive Basis
  - ❑ Minimum Performance Requirements
  - ❑ Relationship to Assignment Provisions
  - ❑ For IP With a Set Life Span (e.g., Patents and Copyrights), Payment Obligations and Restrictions on Use of IP Can't Extend Beyond the Life of the IP Asset
  - ❑ Cross-Termination Issues

- ❑ **WARRANTIES**
  - ❑ Warranties vs. Indemnities; Two-Way or One-Way
  - ❑ All Necessary Rights and Authority
  - ❑ No Conflicting Obligations To/Rights of Third Parties
  - ❑ Originality
  - ❑ Noninfringement
  - ❑ Quality of Services/Licensed Materials (e.g., Y2K Issues; Conformity to Specifications)
  - ❑ Warranties for Resulting Products/Services
  - ❑ Separate Treatment of Licensee's Modifications and Derivative Works
  - ❑ Remedies for Breach of Warranties (e.g., Repair, Replacement, Termination, Refunds)

- ❑ **DISCLAIMERS**
  - ❑ Disclaimer of Implied Warranties
  - ❑ Y2K Issues
  - ❑ Data Loss

- ❑ **INDEMNIFICATION**
  - ❑ Who Controls Defense?
  - ❑ Obligation of Indemnified Party to Assist; Costs of Assistance
  - ❑ Choice/Approval of Counsel
  - ❑ Settlement Approval
  - ❑ Confidentiality of Settlements
  - ❑ Remedies and Limitations
  - ❑ Right to Pursue Injunctive Relief; Acknowledgment of Irreparable Harm
  - ❑ Disclaimers of Consequential/Incidental/Punitive Damages
  - ❑ Caps on Liability (Which Breaches and Obligations Covered by Cap?)

- ❑ **INSURANCE**
  - ❑ Insurance and/or Warranty Provisions to Ensure Liability Protection Against Claims; Verify Licensee's Ability to Stand Behind Financial "Hit" of a Warranty Claim.
  - ❑ Comprehensive General Liability
  - ❑ Product Liability
  - ❑ Errors/Omissions; Professional Insurance

- ❑ **SOFTWARE OWNERSHIP ISSUES**
  - ❑ Access to Source Code
    - ❑ Escrow / Bankruptcy
    - ❑ Other
  - ❑ Development of Works for Hire
  - ❑ Assignments of IP
  - ❑ Joint Ownership (Default Rules on Patents vs. Copyrights)
  - ❑ Patent Prosecution/Defense Procedures
  - ❑ Pre-Existing Works Incorporated in New Licensed Materials
  - ❑ Ownership of Derivative Works
  - ❑ Third Party "Upstream" Issues
  - ❑ Use of Contractors to do Development

- ❑ **OBLIGATIONS OF LICENSOR:**
  - ❑ Equity Contribution or Cost Contribution
  - ❑ Financial Liability
  - ❑ Services, Training and Management
  - ❑ Research - Continuing
  - ❑ Property to be Transferred to Licensee
  - ❑ What About Providing Updates on the Technology
  - ❑ What About Training in U.S.
  - ❑ Control Over Source of Materials (At Least Approval Rights Over Source If Not Self-Sourced and Rights to do QC/QA Inspections With Rejection/Acceptance Criteria)

- ❑ **MANAGEMENT**
  - ❑ Define the Roles of Each Party with Respect to Training, Marketing Efforts, Policy Questions.
  - ❑ Define Costs for Travel, Lodging and Transportation In-Country - Who Responsible to Pay

- ❑ **INFORMATION AND REPORTING**
  - ❑ Audits
    - ❑ Period for Keeping Books and Records; Location
    - ❑ Choice of Auditor
    - ❑ Frequency of Audit
    - ❑ Confidentiality
    - ❑ Payment for Audit
  - ❑ Definition of Material Discrepancy
  - ❑ Description of Liaison Officers
  - ❑ Exchange of Information
  - ❑ Financial Reporting
  - ❑ How Will Royalty be Monitored
  - ❑ Frequency of Reports
  - ❑ What Form and What Language
  - ❑ Location and Access of Records
  - ❑ Audit Rights of Licensor
  - ❑ Retention After Termination
  - ❑ Form of Statements to Accompany or Precede Payments
  - ❑ Invoice Procedures
  - ❑ Payment Schedule/Terms
  - ❑ Manner of Payment; Currency
  - ❑ Interest on Late Payments

- ❑ **MARKETING OPPORTUNITIES OUTSIDE LICENSE TERRITORY**
  - ❑ What Must be Referred?
  - ❑ What Each Party may Retain?
  - ❑ Best Efforts Marketing Requirements
  - ❑ Specific Publicity and Marketing Requirements (e.g., Promotional Expenditures)
  - ❑ Initial Deal Announcement
  - ❑ Procedures for Further Joint Promotions/Publicity Efforts
  - ❑ Required/Permitted Credits - Location and Form
  - ❑ Authorization to Use Licensor's Name/Trademarks
  - ❑ Trademark Quality Control Provisions
  - ❑ Approval Procedures/Timelines

- ❑ CONFIDENTIALITY
  - ❑ Scope of Coverage re Materials/Information
  - ❑ Confidentiality of Agreement Terms
  - ❑ Rights to Disclose to Contractors; Bona Fide Potential Purchasers; As Required By Law
  - ❑ Three-Way NDAs and Third Party Beneficiaries
  - ❑ Carve Outs
  - ❑ Length of Obligations
  - ❑ Burdens of Proof/Evidentiary Standards

- ❑ **TERMINATION**
  - ❑ Time - Notice and When is it Permissible
  - ❑ Completion of Contracts
  - ❑ Early Termination:
    - ❑ For Cause
    - ❑ By Agreement
  - ❑ For Europe, Insert Provisions Waiving "Equity Buy Out" Under European Business and EU Protection Rules
  - ❑ Can Take the Form of a Fixed Fee (Like Liquidated Damages)
  - ❑ Try for Waiver of Any Fees Upon Termination
  - ❑ Draft to Identify Such Fee as Part of the Sales Commission, or Other Compensation Received by Licensee During Term of License.
  - ❑ Termination for Convenience vs. Cause; One Way or Two Way
  - ❑ Notice and Cure Periods
  - ❑ Sell-Off Periods; Other Wind-Down Approaches
  - ❑ Preservation of End User Licenses, Other Third Party Rights
  - ❑ Bankruptcy Issues
  - ❑ Survival Clause; Post-Termination Obligations
  - ❑ Delivery and Return of Licensed Materials
  - ❑ Payment/Insurance Obligations
  - ❑ Return or Destroy Provisions; Certifications

- ❑ **STANDARD LEGAL PROVISIONS**
  - ❑ Definition of Parties
  - ❑ Identify Parties:
    - ❑ Is Foreign Company a Properly Registered Company?
    - ❑ Is the Company Registered to do Business (State or in U.S.?)
    - ❑ Coverage of Subsidiaries/Affiliates
    - ❑ Assignment Rules - Should Address Merger, Changes of Control
    - ❑ Verify that Relevant IP is Owned or Controlled by the Named Parties
    - ❑ Mass-Market Licenses - Consumer Protection Laws Apply
  - ❑ Manifestation of Assent

- Name of Principal to Sign Agreement:
    - What is Their Authority to Sign?
    - Who Will Actually be Responsible for Technology Protection, Operations, Marketing, etc.?
- Kind of Agreement/Assent
    - Shrink-Wrap
    - “Click Wrap”
    - Signed Agreements - Templates and Negotiated Deals
    - EDI (Electronic Data Interchange)
- Risk of Loss
- Integration
- Construction
- Choice of Governing Law, Venue
- Notices
- Statute of Limitations
- Attorneys fees
- Dispute Resolution
    - Negotiation - Preferred Way (Need Procedure)
    - Arbitration - Arbitration Centers in New York, UK, HK, Paris
    - When
    - Where
    - By Whom
    - Under What Circumstances
    - Apply What Law
    - Enforcement
    - Irreconcilable: Shotgun Clause to Buy Out Rights of Licensee (if Necessary) or Terminate and Recover/Destroy Marketing Materials and Product.
    - Litigation vs. ADR
    - Detail on ADR Clauses - Choice of Arbitrators, Evidentiary Rules Timelines
    - Structured Dispute Resolution Clauses

OTHER LEGAL CONSIDERATIONS

- UCC
    - Implied Warranties
    - Consequential Damages
    - Incidental Damages
- State Consumer Protections Law
    - Magnuson-Moss Act (Non-Corporate)
    - 60-Day California Rule
- Bankruptcy Laws
- Tort Law
- Antitrust Law Guidelines

ADDITIONAL INTERNATIONAL CONSIDERATIONS

- Different Approaches to IP Ownership/Licensing Default Rules
- Government Approval and Registration Requirements
- Antitrust Laws
- Consumer Protection Laws
- Export Issues
- Withholding Taxes
- Localization of Product
- Localization of End User License Term