

Intellectual Property Seminar: IP Licensing Agreements



Hibbs Law, LLC

Negotiating Power Considerations

Basic Agreement Provisions

Common Royalty Structures



Gary Con 2022— 25 Mar 2022

Hibbs Law, LLC

Genna Hibbs & Emily Mosnick



- ▲ Intellectual Property boutique firm **founded in 2013**
- ▲ **Bar Admissions:** Illinois, US Northern District IL, US Patents & Trade Office
- ▲ **Focus Areas:** Patents, Trademarks, Copyrights, Unfair Competition, Trade Secrets, Infringement Enforcement/Litigation, Licensing, Entity Formation, Regulatory Compliance, and Business Transactions.
- ▲ **Clientele:** Small business, medium corporations, individuals
- ▲ **Expertise**
 - ▲ **Genna:** Biotechnology, Genetics, Small Business, Government,
 - ▲ **Emily:** Regulatory, International Law, Trademark, Copyright, Privacy
- ▲ **Gaming Experience:**
 - ▲ **Genna:** TTRPG, MTG, WH40K, FPS
 - ▲ **Emily:** Browser-based RPG games
- ▲ Substantial dedication to **pro bono** legal services (20-30% of time)



Legal Disclaimer



- ▲ **Nothing** in this presentation is meant to imply or suggest that an attorney-client relationship is created through this presentation or related communications.
- ▲ After a private initial client meeting, a signed **letter of engagement** would be the official step to create that relationship with Hibbs Law, LLC
- ▲ Legal analysis is largely fact-based and involves a full examination of all details and factors. **General rules** presented, or questions asked and answered, are posed as hypotheticals, and should not be relied on as legal advice. The most common answer to a ‘simple’ legal question is: “It depends.”



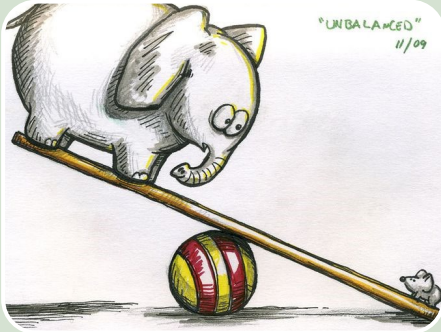
Congratulations!



- ▲ Passion
- ▲ Tenacity
- ▲ Strength
- ▲ Courage
- ▲ Heart



Road Map



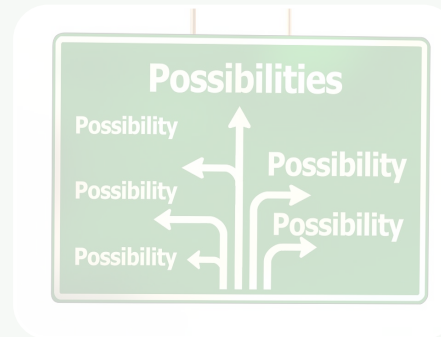
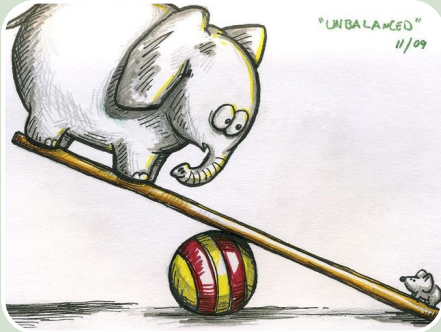
1
Evaluating
Your
Negotiating
Power

2
Expected
Provisions
and Red
Flags

3
Royalty
Structure
Options

Bonus
Round!
Limitations
of Fair Use

Road Map



1
Evaluating
Your
Negotiating
Power

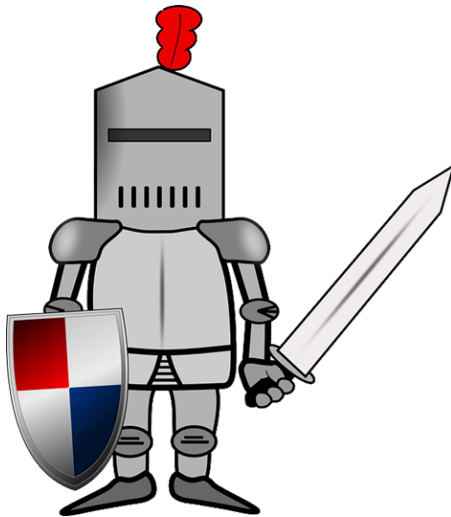
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Who is across the table?

How balanced is your negotiating power?



Before negotiating, ask yourself



- ▲ Is this “all or nothing”?
- ▲ What are my limits/walk-away lines?
- ▲ How will they see it?



Corporate Relationships and YOU



An **AMAZING IDEA** with great **POTENTIAL** deserves the **RIGHT REPRESENTATION**

BEWARE:

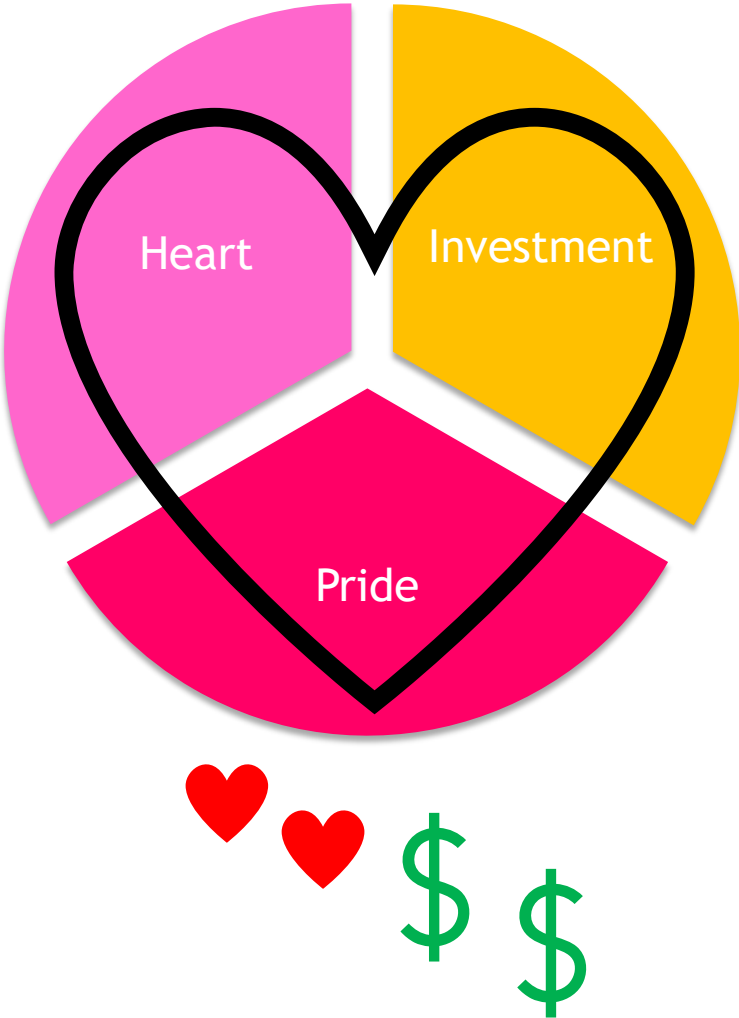
Number one complaint from large corporate counsel:

DEVELOPERS with a **GRANDIOSE PERCEPTION** of themselves or their work

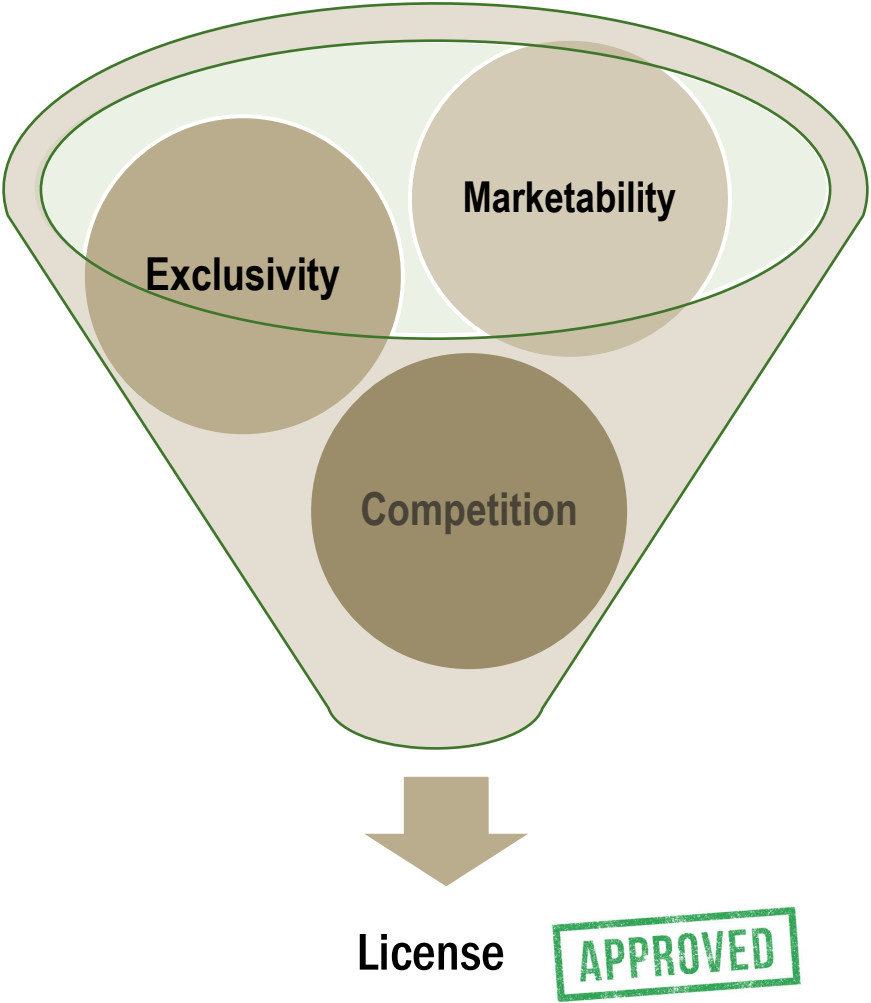


Different views...

Your view, the rightsholder!



Cold corporate perspective





What might the negotiation process look like?



Discussion

Discuss / identify:

- ▲ Royalties
- ▲ Payment structure
- ▲ Types of use
- ▲ Geography / market territory

Your role:

Have an idea of your

- *Terms*
- *Flexibility*
- *Investment cost*
- *Strength of your IP*
- *List of topics to discuss*

Term Sheet

Term sheet is a non-binding letter of intent for corporation to approve internally

- ▲ Main provisions / Key items from discussion
- ▲ Scope & plans & timing

Your role:

Be clear; don't want to re-do on either side

License Agreement

License agreement merges term sheet with their boilerplates

- ▲ Review for detail
- ▲ This becomes binding

Your role:

Review carefully for

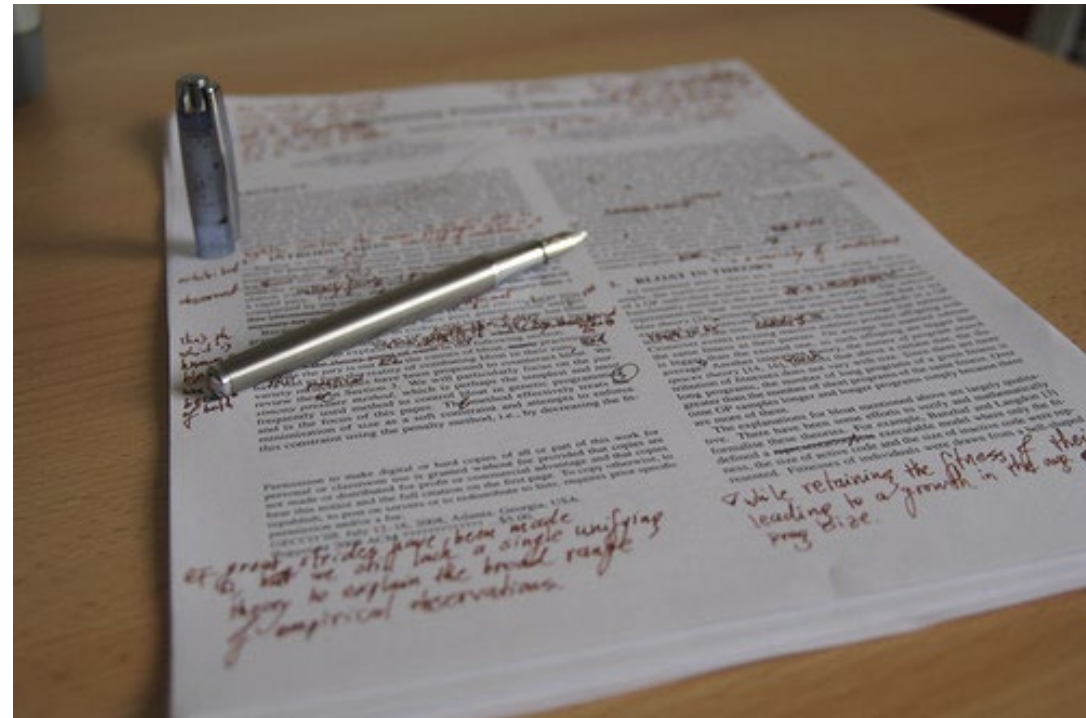
- *Alignment with term sheet*
- *Appropriate balance items*

How much 'red-lining' can you get away with?



Bargaining Power Factors:

- ▲ 'Confidence' of large corporation power
- ▲ Opportunity to meet with their other competitors
- ▲ The likelihood that you are easy to work with
- ▲ Progress in securing IP and/or regulatory compliance



Keep it Simple



Even the most hard-lined position should agree to 1-3 substantive changes that balance. However, make sure to correct any typos you find.

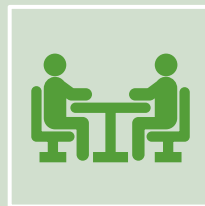
Protection: Do You Need an NDA?



Patent Pending/ Unpublished



Patent secured



Trademark registered



Protection:
Do You
Need an
NDA?



Patent Pending/ Unpublished



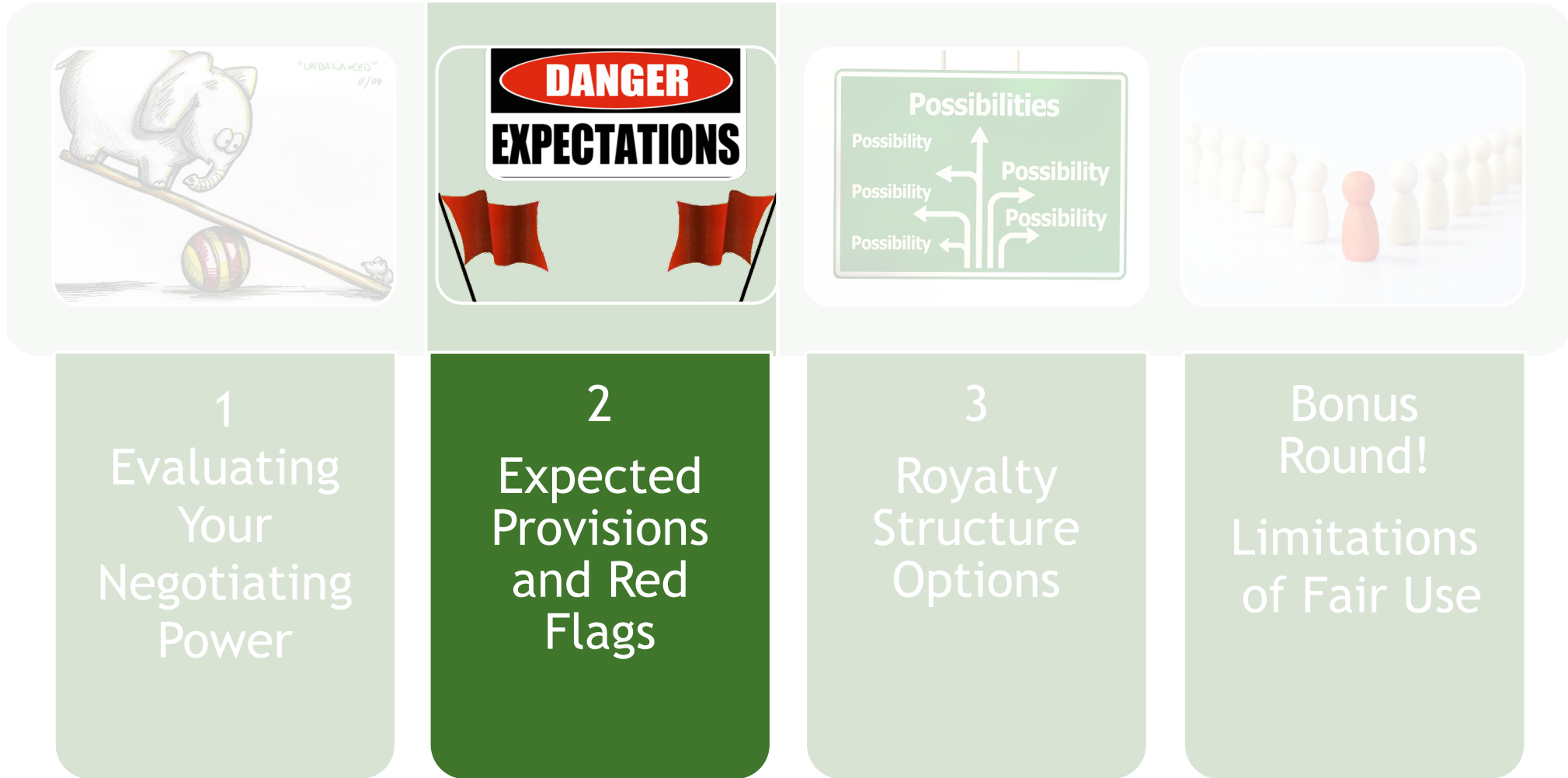
CAUTION:

**with trade-secrets
If you “loose” it ...
you’ll lose it!**



Trademark registered

Road Map



Patent



Where does the IP fall?



- ▲ Scope of Use

- ▲ Specific provisions about your IP (patent / trademark)

- ▲ Validity - recognize or does not challenge
- ▲ “Assets” and “Property” - how and where is your IP defined as either of these?
- ▲ Identifying numbers
- ▲ Technology as its own separate thing
- ▲ Trade secrets



Scope of Use
Specific Provisions

Where does the IP fall?



▲ Patent assignments/ ownership

- ▲ “Rights in the entirety”
- ▲ Joint ownership
- ▲ Royalty percentages
- ▲ Buy-outs and residuals



Special
Language

Special Language for Trademarks



Lack of Quality Control
of the TM use and the products/services!



Abandonment of your mark can occur if you license your mark but have no control over how it's used

- This is called **NAKED LICENSING**. **Never do this!**
- You want a consumer protection policy with control provisions

Quality control = approval of new marketing uses

- ▲ Can be generally or periodic
- ▲ Can be more invasive and frequent
- ▲ Quality control of products/services
- ▲ Option must be there



Goodwill: Licensee's use and goodwill 'inures' (flows) to you

Time-Related Factors



You should always be given time to review documents and consult legal counsel!



Term of your license:

- ▲ Length of license (and renewal means)
- ▲ Rate changes (are you rewarded for success?)
- ▲ Notice requirements to make adjustments or terminate
- ▲ Termination provisions: where does the data and stuff end up?



Beware of the Combination Punch!



Especially in term definitions



EXAMPLE:

Article 31 lists disclosure requirements

Article 5 lists failure to follow Article 31 as a breach

Article 27 says breaches from Article 5 result in very unfair damages





Too many and one-sided



Duties, Waivers, and Indemnities

Duties, Waivers, and Indemnities



Too many and one-sided



Potential Corrections:

- ▲ Adding the other party = could balance out the obligation/risk, rather than a total re-write.
- ▲ Removing a discrete portion that is particularly heavy-handed
- ▲ Adding “good faith”/ reasonableness duties to market/sell

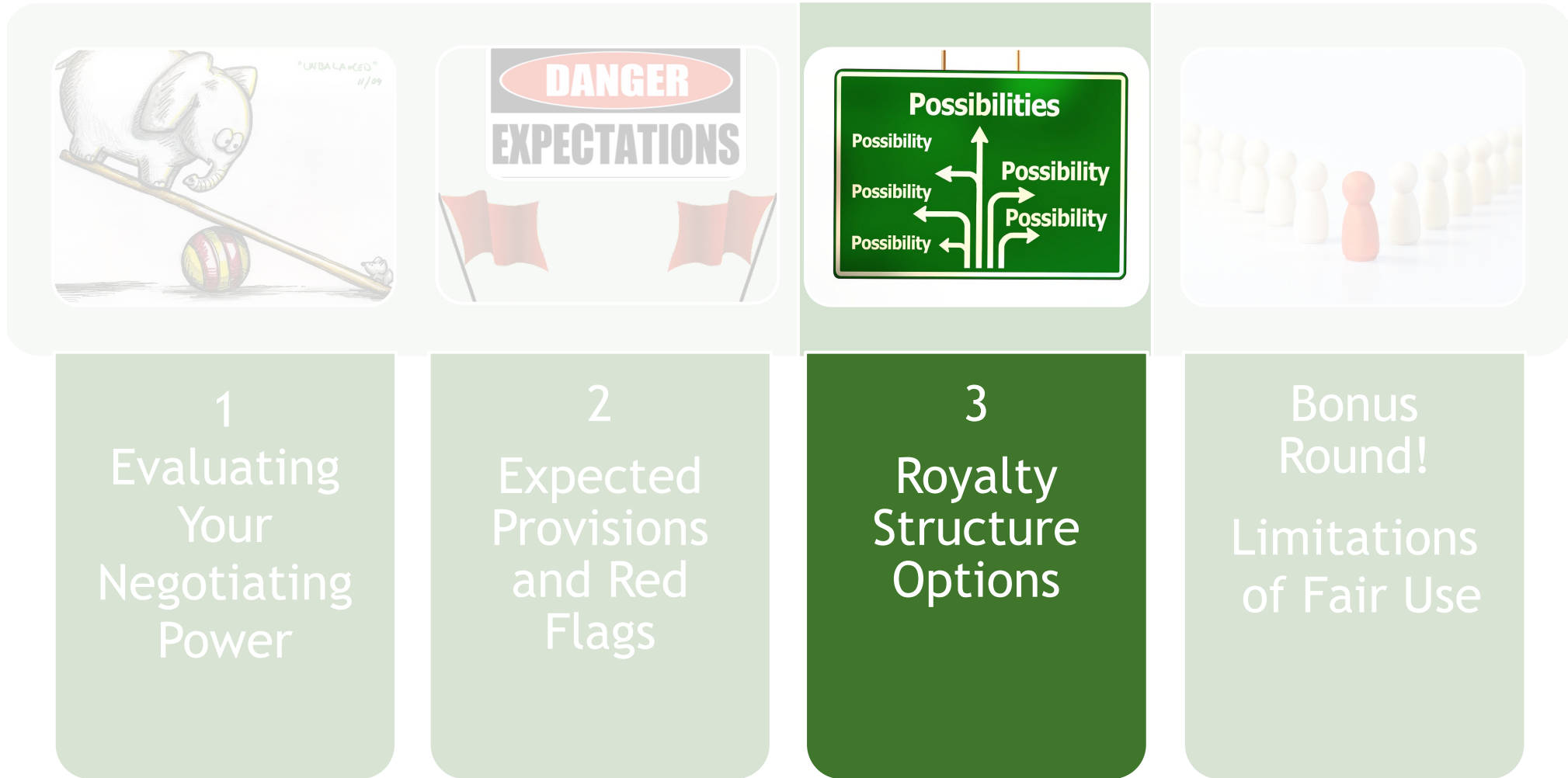
Commercially Reasonable Effort (CRE) or Good Faith (GF) requirements



Only applicable if you retain ownership.



Road Map





TOP SECRET



PATENT PENDING



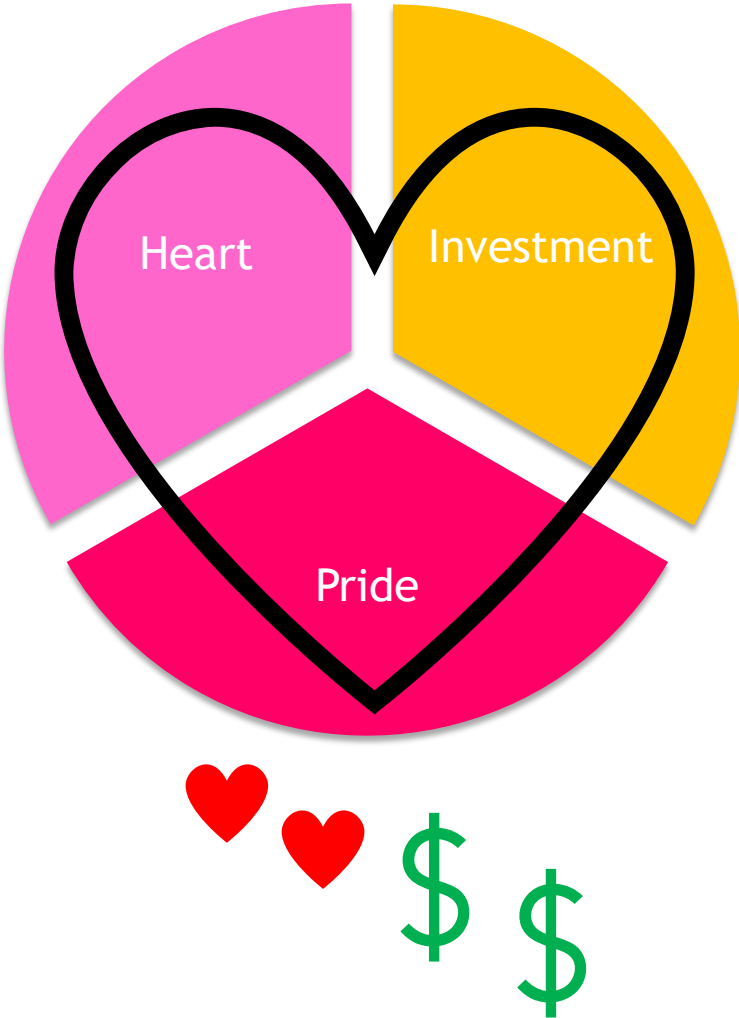
What can influence royalty structure? aka “Valuation”



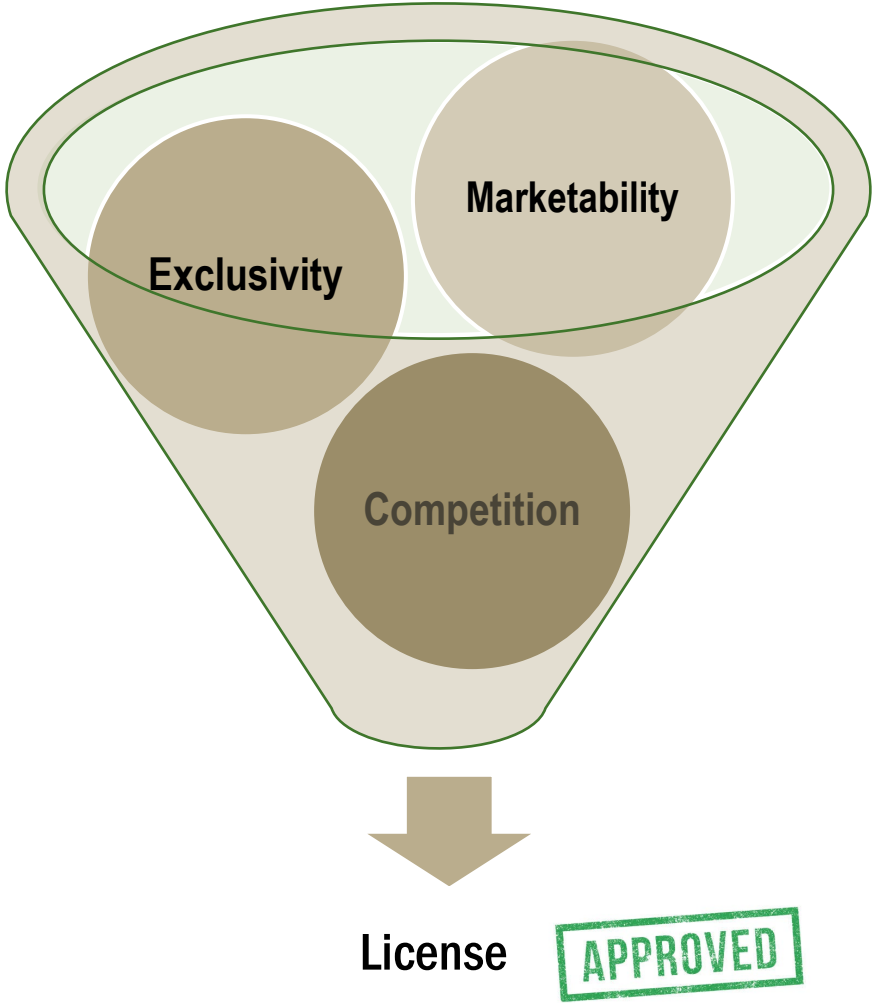
- ❑ What is the Licensee’s investment to bring your invention to market?
 - ▲ Help secure international rights?
 - ▲ Help expanding patents in a family?
 - ▲ Building out final product vs. only licensed distributor?
 - ▲ Are you bringing compliance/permits with you?
- ❑ Potential market and ROI
- ❑ Strength or weakness of the IP rights (especially trademark)
- ❑ Which rights are they looking at? Future rights?
- ❑ Length and market desired?
- ❑ Available alternatives?
- ❑ Cost of invalidating your IP?

Different views...

Your view, the rightsholder!



Cold corporate perspective



Patent

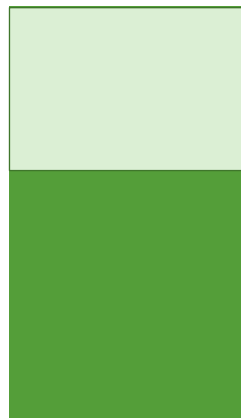


General Royalty Structures



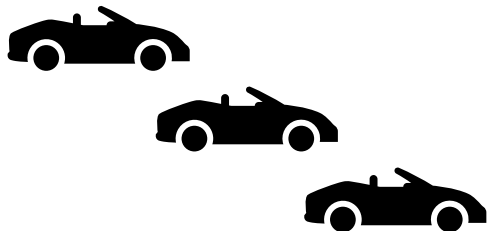
(1) Gross Sales %:

Fixed Royalty: most common, no extra incentives
Decreasing %: as more sales made, % goes down



What is deducted?? the big fight!

(2) Net Profit %



(3) \$ Per action: units made or sold (health and auto)

Modifiers to Royalty Structures



Minimum payment?

Initial lump sum, mile post, or termination pay out?

Residuals after IP expiration? 'accrue during term, but paid over time'.

Patents



Patent Pending and Good Business Plan = 1% average royalty

Patent Issued = 1-2%

Pharma/Biotech with good indication pre-clinical data = 2-3%

Trademarks



Royalty rates all over the place, VERY fact dependent

Go through valuation analysis

IRS experts' review of many TM royalties found rates between **0.1%** and **15% !!!**



Copyrights



Copyright Office provides some industry guidelines, but does not require any specific percentage for most

Artwork: <10%

Toys: 3%-8%

Sports: 8%-11%

Fashion: 2%-10%

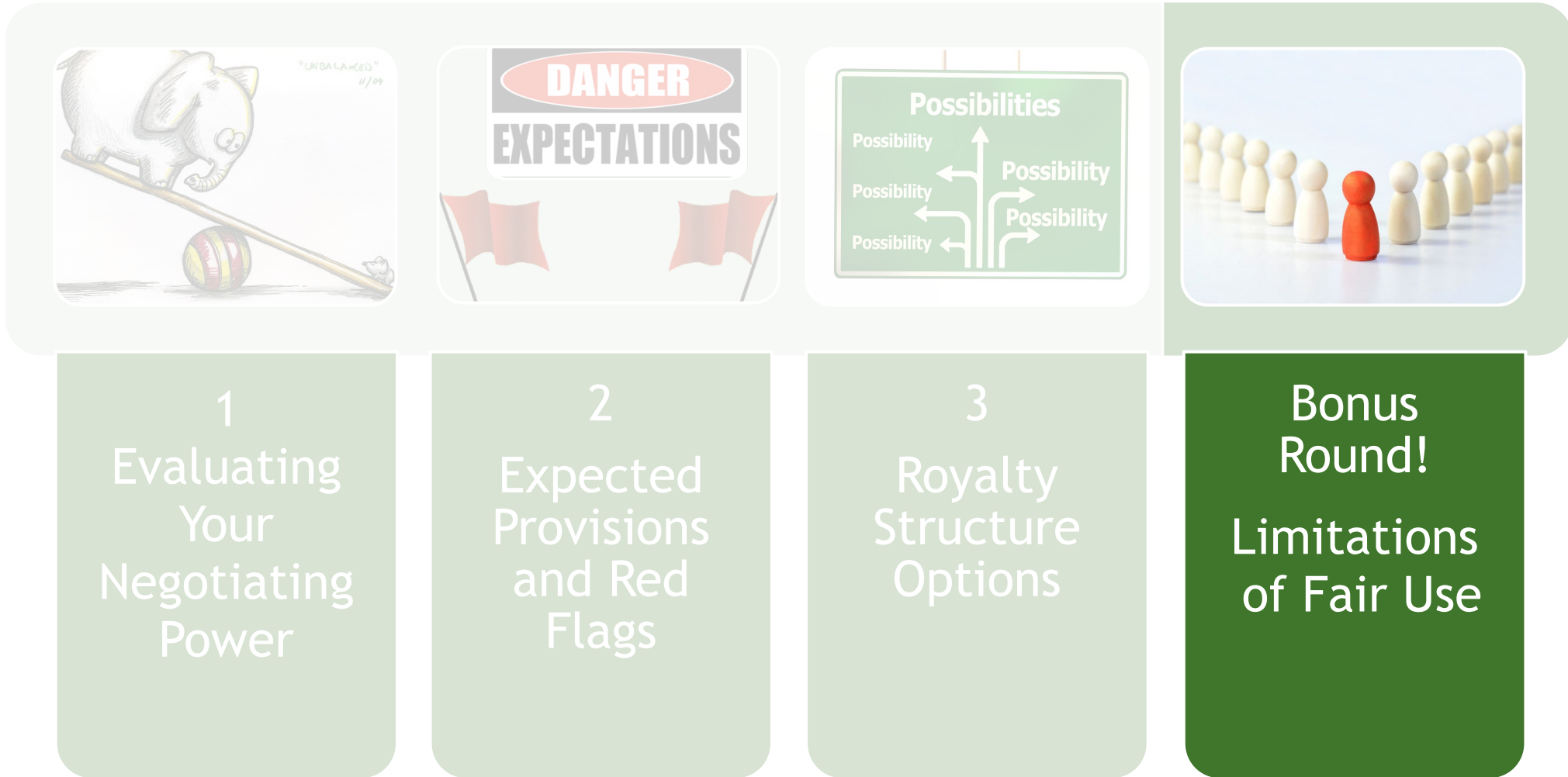
Entertainment: 8%-12%

Average: 5%

Available online

www.copyright.gov

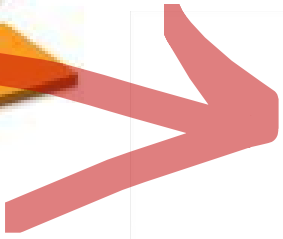
Road Map



BONUS ROUND: Limitations of Fair Use

Interplaying factors





What Is Fair Use?

- ▲ Generally, use of another's Intellectual Property for a specific reason.
- ▲ Legally, an affirmative defense to Copyright or Trademark infringement.
- ▲ Someone can use your Intellectual Property Fairly!
- ▲ You can use someone else's Intellectual Property fairly!





FAIR USE FOR
TRADEMARKS:
NOMINATIVE & CLASSIC

Nominative Fair Use



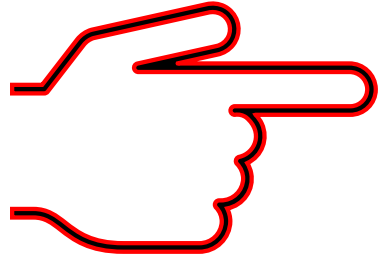
Allowed to use another's trademark to describe your product, but only so much as necessary

Generally reserved for comment, criticism, comparison, or a point of reference

Often comes up in comparative advertising



Nominative Fair Use



Legal test has 3 parts:

1. The product can't be identified without using the trademark
2. Used only what is "reasonably necessary"
3. No suggestion of affiliation

Descriptive (“Classic”) Fair Use



- ▶ Using someone else’s trademark to describe your own product
- ▶ Describes an attribute, location, or a person
- ▶ The placement/prominence of the use can be important



vs.



The Spectrum of DISTINCTIVENESS.



Arbitrary/Fanciful



Suggestive



1st Amendment,
Free Speech.

NETFLIX

Descriptive with
secondary meaning



Competitors ought to be allowed to describe their own goods/services and to distinguish from the competition clearly.

World's
Best Beer!

Merely descriptive/
generic

THERMOS



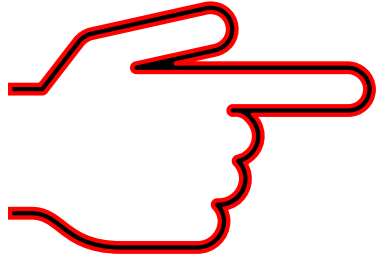
DRY ICE



Descriptive (“Classic”) Fair Use



Legal test has 3 parts:



1. Not used as a trademark (i.e. to identify the source of the product)
2. Use is descriptive (literal or aspirational)
3. Good faith



FAIR USE FOR
COPYRIGHTS

Copyright Fair Use



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Copyright Fair Use: Factors



- ▲ 1. the purpose and character of the use (commercial versus nonprofit/educational; the “transformative” nature);
- ▲ 2. the nature of the infringed copyrighted work (factual versus creative; published versus unpublished);
- ▲ 3. the amount and “substantiality” of the original work; and
- ▲ 4. the effect on the market or value of the original work



Copyright Fair Use: Categories

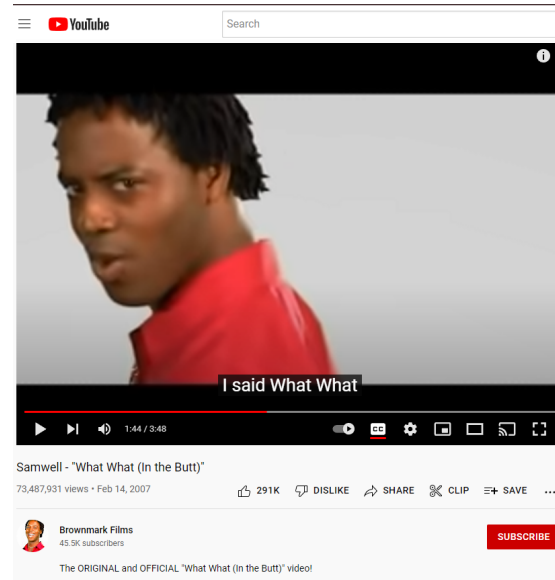


- ▲ Criticism
- ▲ Comment
- ▲ News reporting
- ▲ Teaching (including multiple copies for classroom use)
- ▲ Scholarship
- ▲ Research
- ▲ Satire (not the same as Parody!)

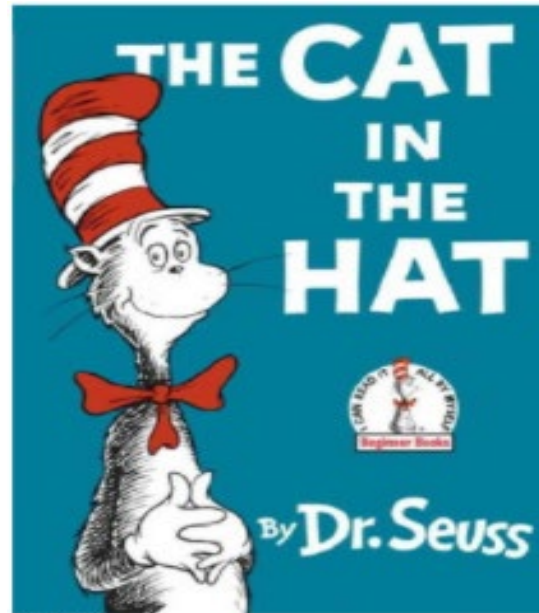
Copyright Fair Use: In Reality



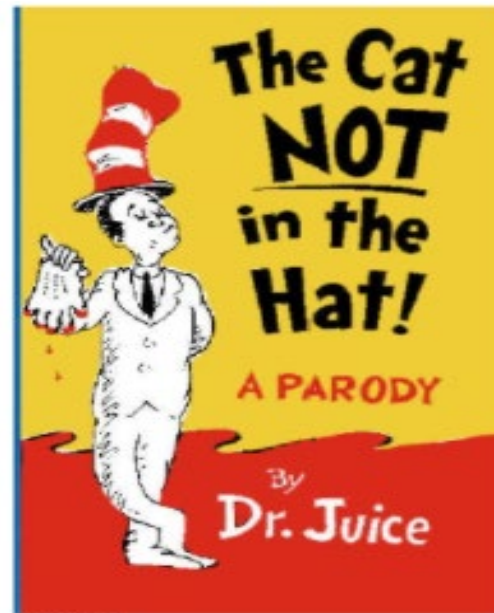
Fair Use:
commentary
on viral videos



Not Fair Use:
using the work
as a “vehicle”



Plaintiff



Defendant

Additional Defenses Against Infringement in the Copyright Act



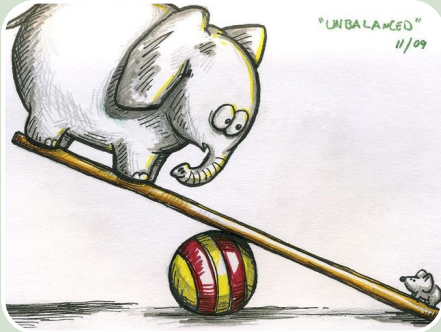
- ▲ Sec. 108: Libraries and Archives can make/provide copies
- ▲ Sec. 109: Phonorecords (sound recordings) - resale of the original is allowed, but NO rental / leasing / lending and NO public display
- ▲ Sec. 110: Performances and Displays - exclusions generally for non-profit, non-commercial and private uses, or educational classes

Fair Use Policy Comparison: Games Workshop vs. Wizards of the Coast



	Games Workshop	Wizards of the Coast
Use characters and/or settings for written stories	Yes	Yes
Use characters and/or settings for artwork	Yes	Yes
Use characters and/or settings for fan sites	Yes	Yes
Use characters and/or settings for films or animations	No	Yes
Use characters and/or settings for PC games/apps	No	Not specified - Likely No
Use official content for tattoos	Not specified - Likely No	Yes
Use exact text, artwork, and/or imagery	No	No - exact text content Yes - artwork and imagery
Use official videos or music for fan content	Not specified - Likely No	No
Sell content (all forms, digital and non)	No	No
Generate ad revenue from content	No	Yes
Generate revenue from sponsors or donations	Not specified - Likely No	Yes (but no competitor sponsorships)
Put content behind a subscription/registration requirement (email address, downloads, surveys, etc.)	Not specified	Yes
Public distribution (non-digital)	No	Yes
Digital distribution (free)	Yes	Yes
Disclaim association with the source	Yes	Yes
Include “unofficial” on books/fan-fiction/magazines/journals	Yes (must be on front cover)	Yes (use specific language from website)
Use logos or other trademarks	No	No
Use content in a non-discriminatory/”polite” manner	Yes	Yes
Post or copy rules or stats from official materials	No	No
Copy game mechanics	No	No (some use granted in the DnD OGL)
Copy physical products	No	No

Road Map



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Limitations
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QUESTIONS?



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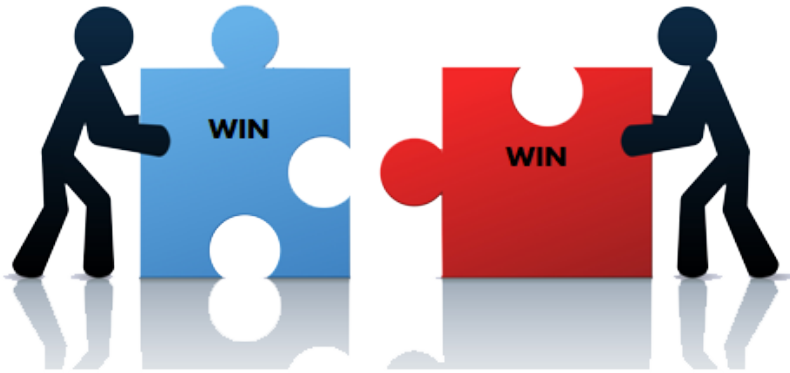
Emily Mosnick
e_mosnick@hibbslaw.com



Negotiations Exercise: Big Wig, Inc. v. Underdog, LLC



NEGOTIATION

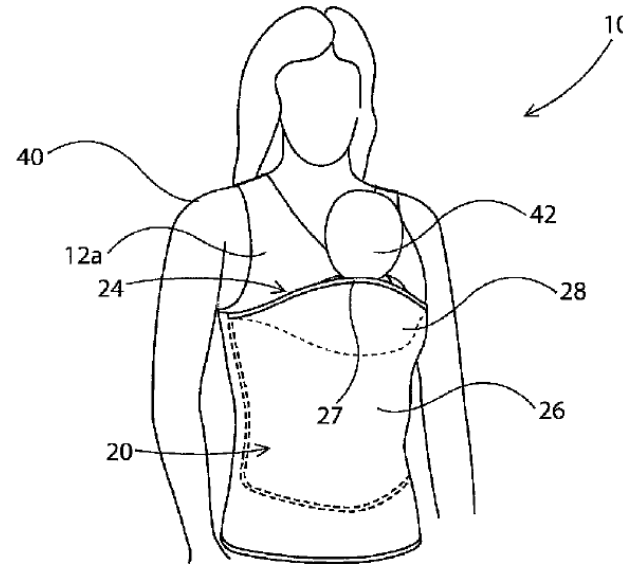


Negotiations Exercise:

Big Wig, Inc. v. Underdog, LLC



- ▲ Big Wig, Inc. and Underdog, LLC have had several phone calls and emails about potentially licensing Underdog's invention.
- ▲ There is an NDA between the parties to protect Underdog's invention in discussions.
- ▲ Now the parties are sitting down for formal negotiations.



Negotiations Exercise:

Big Wig, Inc. v. Underdog, LLC



- ▲ 15min to read materials and strategize with team
- ▲ 30-40min to negotiate terms
- ▲ Remainder: discuss results as a group

NEGOTIATION

