

# MILGRIM'S GUIDE TO IP LICENSING

ROGER M. MILGRIM



Wolters Kluwer  
Law & Business

ASPEN PUBLISHERS

# MILGRIM'S GUIDE TO IP LICENSING

---

**First Edition**

**Roger M. Milgrim**  
Member, New York Bar  
[www.rogermilgrim.com](http://www.rogermilgrim.com)



**Wolters Kluwer**

Law & Business

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher and the author(s) are not engaged in rendering legal, accounting, or other professional services. If legal advice or other professional assistance is required, the services of a competent professional should be sought.

—From a *Declaration of Principles* jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations

Copyright © 2012 CCH Incorporated. All Rights Reserved.

No part of this publication may be reproduced or transmitted in any form or by any means, including electronic, mechanical, photocopying, recording, or utilized by any information storage or retrieval system, without written permission from the publisher. For information about permissions or to request permissions online, visit us at [www.aspenpublishers.com/licensing/default.aspx](http://www.aspenpublishers.com/licensing/default.aspx), or a written request may be faxed to our permissions department at 212-771-0803.

Published by Wolters Kluwer Law & Business in New York.

Wolters Kluwer Law & Business serves customers worldwide with CCH, Aspen Publishers and Kluwer Law International products.

Printed in the United States of America

1 2 3 4 5 6 7 8 9 0

### Library of Congress Cataloging-in-Publication Data

Milgrim, Roger M.

Milgrim's guide to IP licensing / Roger M. Milgrim. — 1st ed.

p. cm.

Includes bibliographical references and index.

ISBN 978-1-4548-2783-2 (alk. paper)

I. License agreements — United States. I. Title. II. Title: Guide to IP licensing. III. Title: Milgrim's guide to intellectual property licensing.

KF3145.M5525 2012

343.7307 — dc23

2012031225



---

# About Wolters Kluwer Law & Business

Wolters Kluwer Law & Business is a leading global provider of intelligent information and digital solutions for legal and business professionals in key specialty areas, and respected educational resources for professors and law students. Wolters Kluwer Law & Business connects legal and business professionals as well as those in the education market with timely, specialized authoritative content and information-enabled solutions to support success through productivity, accuracy and mobility.

Serving customers worldwide, Wolters Kluwer Law & Business products include those under the Aspen Publishers, CCH, Kluwer Law International, Loislaw, Best Case, ftwilliam.com and MediRegs family of products.

CCH products have been a trusted resource since 1913, and are highly regarded resources for legal, securities, antitrust and trade regulation, government contracting, banking, pension, payroll, employment and labor, and healthcare reimbursement and compliance professionals.

Aspen Publishers products provide essential information to attorneys, business professionals and law students. Written by preeminent authorities, the product line offers analytical and practical information in a range of specialty practice areas from securities law and intellectual property to mergers and acquisitions and pension/benefits. Aspen's trusted legal education resources provide professors and students with high-quality, up-to-date and effective resources for successful instruction and study in all areas of the law.

Kluwer Law International products provide the global business community with reliable international legal information in English. Legal practitioners, corporate counsel and business executives around the world rely on Kluwer Law journals, looseleaves, books, and electronic products for comprehensive information in many areas of international legal practice.

Loislaw is a comprehensive online legal research product providing legal content to law firm practitioners of various specializations. Loislaw provides attorneys with the ability to quickly and efficiently find the necessary legal information they need, when and where they need it, by facilitating access to primary law as well as state-specific law, records, forms and treatises.

Best Case Solutions is the leading bankruptcy software product to the bankruptcy industry. It provides software and workflow tools to flawlessly streamline petition preparation and the electronic filing process, while timely incorporating ever-changing court requirements.

ftwilliam.com offers employee benefits professionals the highest quality plan documents (retirement, welfare and non-qualified) and government forms (5500/PBGC, 1099 and IRS) software at highly competitive prices.

MediRegs products provide integrated health care compliance content and software solutions for professionals in healthcare, higher education and life sciences, including professionals in accounting, law and consulting.

Wolters Kluwer Law & Business, a division of Wolters Kluwer, is headquartered in New York. Wolters Kluwer is a market-leading global information services company focused on professionals.

---

---

## WOLTERS KLUWER LAW & BUSINESS SUPPLEMENT NOTICE

This product is updated on a periodic basis with supplements to reflect important changes in the subject matter. If you have purchased this product directly from Wolters Kluwer Law & Business, we have already recorded your subscription for the update service.

If, however, you purchased this product from a bookstore and wish to receive future updates and revised or related volumes billed separately with a 30-day examination review, please contact our Customer Service Department at 1-800-234-1660 or send your name, company name (if applicable), address, and the title of the product to:

**Wolters Kluwer Law & Business  
Distribution Center  
7201 McKinney Circle  
Frederick, MD 21704**

---

### **Important Contact Information**

- To order any title, go to *www.aspenpublishers.com* or call 1-800-638-8437.
- To reinstate your manual update service, call 1-800-638-8437.
- To contact Customer Service, e-mail [customer.service@wolterskluwer.com](mailto:customer.service@wolterskluwer.com), call 1-800-234-1660, fax 1-800-901-9075, or mail correspondence to: Order Department — Aspen Publishers, Wolters Kluwer Law & Business, PO Box 990, Frederick, MD 21705.
- To review your account history or pay an invoice online, visit [www.aspenpublishers.com/payinvoicess](http://www.aspenpublishers.com/payinvoicess).



**Wolters Kluwer**  
Law & Business

*This book is dedicated to the excellent lawyers and astute business folk—on my side as well as the other side of the table—who over my years of practice provided so many insights to licensing intellectual property. Licensing, ranging from high tech—processes, articles, software, you name it—to fast food and fashion, has greatly evolved over the past several decades. If measured only by the revenue it generates, IP licensing has attained vast importance worldwide. Were it a single industry, it would be the largest in the world. This book is my way of saying thanks to my “teachers” by passing on their (and, hem hem, many of my own) insights and pointers to aid both newcomers and old hands to do a bang-up job in this dynamic field.*

# TABLE OF CONTENTS

---

## ABBREVIATED REFERENCES

### INTRODUCTION AND THE IP LICENSING TOOLBOX

- Int. 1 IP: An Invisible, Invaluable Asset
- Int. 2 Our IP Menu: Four Entrees
- Int. 3 Patents
- Int. 4 Copyright
- Int. 5 Trade Secrets
- Int. 6 Marks
- Int. 7 This Guide's Approach And Aspiration
- Int. 8 Know The IP Tools: Then Innovate
- Int. 9 Sensitizing Executives And Practitioners To Issues and Pragmatic Solutions
- Int. 10 IP Licensing Calls For Teamwork
- Int. 11 This Is Not A Form Book
- Int. 12 What's Off Limits

## Chapter 1

### PRELICENSING CONSIDERATIONS

- 1.1 Strategizing: IP Viewed At The Outset
- 1.2 Selecting The IP And Crafting The Structure
- 1.3 Exclusive, Sole Or Nonexclusive Licensing

## Chapter 2

### PRELICENSING STEPS

- 2.1 Strategy
- 2.2 Identifying License Prospects
- 2.3 Exclusive Or Otherwise
- 2.4 Franchising: A Major Form of Nonexclusive Licensing
- 2.5 Prelicensing Steps Pertinent To Various IP License Arrangements
- 2.6 Know Your "Customer"
- 2.7 The "Buyer" (Licensee) Should Check Out The Seller (Licensor)
- 2.8 Nondisclosure Agreements

- 2.9 Exceptions To Confidentiality
- 2.10 The “Public Domain” Exception
- 2.11 What’s “Independent Development”?
- 2.12 “Black Box” Disclosure
- 2.13 Transactional Related Disclosure
- 2.14 MFL, A Key Prelicense Consideration

### **Chapter 3**

#### **PARTIES**

### **Chapter 4**

#### **RECITALS**

- 4.1 Recitals Can Matter In Disputes
- 4.2 Recitals Aid The Businessman And Set A Tone For The Future
- 4.3 Recitals Can Illuminate For Future Readers
- 4.4 Recitals Can Have Substantive Import In Respect To Third Parties
- 4.5 Recitals Can Be Helpful In The Regulatory And Antitrust Context
- 4.6 Recitals Can Lay The Groundwork For Separating (And Thereby Achieving Distinct Treatment Of) Multiple IP Rights
- 4.7 Recitals To Emphasize The Importance Of Licensor Quality Control *And* Supervision In A Mark License
- 4.8 Objections Encountered To Meaningful Recitals

### **Chapter 5**

#### **DEFINITIONAL CONSIDERATIONS**

- 5.1 Define Terms Early
- 5.2 Make Defined Terms Accord With Accounting Or Other Business Considerations
- 5.3 Words Alone May Not Do The Job
- 5.4 Technical/Business Folk’s Language Merits Respect

### **Chapter 6**

#### **TERMS OF GRANT: ASSIGNMENTS AND LICENSES**

- 6.1 The Grant Has Wide Ranging Consequences
- 6.2 Causes of Action Predating The Assignment Or Exclusive License



## TABLE OF CONTENTS

---

- 6.3 Inherent Issues Concerning An Assignee's/Licensee's Post Transaction Effort
- 6.4 Royalty Promises Going Forward
- 6.5 Divvying Up IP By Territory
- 6.6 The Specific Requirements For IP Assignments Vary
- 6.7 It Ain't Yours Until It's Paid For
- 6.8 Consider Both Named *And* Potential Parties
- 6.9 Territorial Aspects Of Grant
- 6.10 Specificity Of Rights To Be Granted
- 6.11 Don't Assume Away The Significance Of "Irrevocability"
- 6.12 The Nature (Scope) Of The Grant
- 6.13 Defining The Grant In Cross Licenses
- 6.14 No License: I Just Agree Not To Sue
- 6.15 A License Doesn't Necessarily Flow From A Writing
- 6.16 Limiting A Grant

### **Chapter 7**

#### **STRATEGIZING IP GRANT APPROACHES**

- 7.1 Basic Licensing Approaches
- 7.2 Licensing Strategies

### **Chapter 8**

#### **OTHER MATTER FURNISHED APART FROM THE IP GRANT: AT OR NEAR INCEPTION**

### **Chapter 9**

#### **IMPROVEMENTS: BASIC REFLECTIONS**

### **Chapter 10**

#### **HYBRID LICENSING**

- 10.1 For Hybrid Licensing, "The More The Merrier"

### **Chapter 11**

#### **ANCILLARY MATTER**

## Chapter 12

### LICENSOR AND LICENSEE IMPROVEMENTS: NUTS AND BOLTS

- 12.1 Hub and Spoke
- 12.2 Licensor May Seek Improvements Back Even Where The License Is Exclusive
- 12.3 When A Licensor Or Licensee Wants The Other's Improvements, The Game Begins
- 12.4 Defining "Improvements"
- 12.5 Improvements In Patent Cross Licenses
- 12.6 Indemnification And Improvements
- 12.7 Duration of the Improvement Period
- 12.8 Delivering Improvements
- 12.9 Terms And Conditions For Improvements Can Be Distinct From Those That Apply To The Initial IP Grant
- 12.10 Grants Back Can Trigger Antitrust Concerns

## Chapter 13

### CASH CONSIDERATION

- 13.1 "Cash" In Transnational Licenses
- 13.2 Royalty Comes In Many Flavors
- 13.3 "Royalty": An Installment Purchase Or A Periodic Payment For A License?
- 13.4 Sometimes It's Desirable To Allocate Royalty
- 13.5 For Patent *Applications*, Consider Using An Option/License Approach
- 13.6 Allocating Royalty To Different Forms Of IP In A Single License
- 13.7 Royalty And Accounting: They Need To Work In Sync
- 13.8 The Big Question: How Much (aka, Rate Of Royalty)?
- 13.9 Using Royalty Terms To Motivate Licensee Performance
- 13.10 Application Of Upfront Or Periodic Royalty To Other Periods
- 13.11 Best Efforts
- 13.12 A Licensee Won't Want To Pay Royalty For What Others Are Using For Free
- 13.13 Setting Outer Limits To A Royalty Obligation
- 13.14 Even Without A *Contractual* Way Out, A Patent Licensee Still Has A Potential Escape

## TABLE OF CONTENTS

---

### **Chapter 14**

#### **TECHNICAL ASSISTANCE**

- 14.1 Ground Rules For Technical Representatives At The Other's Premises
- 14.2 Nuts and Bolts Of Technical Assistance

### **Chapter 15**

#### **ROYALTY AND ROYALTY STATEMENTS**

- 15.1 Clarifying The Royalty Duty
- 15.2 Make Royalty Reporting Parallel Accounting Practices
- 15.3 Disputes And "Phantom" Royalty Payment

### **Chapter 16**

#### **INFRINGEMENT AND MISAPPROPRIATION**

- 16.1 A Licensee's Two Basic Concerns
- 16.2 Realities Of Suing Infringers
- 16.3 Requirements For Licensees To Notify Licensor Of Suspected Infringement And To Not Foment It
- 16.4 Conditions To A Licensor's Bringing An Infringement Action
- 16.5 Third Party Claims Against The Licensee/Licensor
- 16.6 Practical Issues Of Licensor/Licensee Cooperation In Infringement/Misappropriation Actions
- 16.7 Thoughts About Where To Sue
- 16.8 Taking Into Account That The Licensee (And Possibly The Licensor) May Be Sued
- 16.9 Settlement Issues

### **Chapter 17**

#### **REPRESENTATIONS, WARRANTIES AND COVENANTS AND LIMITS ON LICENSOR LIABILITY**

- 17.1 The Terminology
- 17.2 Representations And Warranties Can Put Flesh On The Bones Of The Dead
- 17.3 Even "Basic" Reps Can Serve A Vital Purpose
- 17.4 Get Help From Transactional, Not Just IP, Lawyers In Negotiating Representations and Warranties
- 17.5 Representations About IP Ownership
- 17.6 Patent Specific Representations

- 17.7 Check Out Ownership And Other Critical Elements
- 17.8 Representations Concerning The Absence Of Third Party Rights
- 17.9 Representations Are The Essence In Black Box Licensing And Play A Vital Role In Turnkey Arrangements
- 17.10 Indemnification For And Limitation Of Liability In Respect Of Representations And Warranties
- 17.11 Limitations On Licensor Liability Generally In Respect Of Specific Types Of License Agreements

## **Chapter 18**

### **GOODS, SERVICES OR FACILITIES AS PART OF THE LICENSING TRANSACTION: DURING THE COURSE OF THE LICENSE**

- 18.1 Many Arrangements Go Beyond IP
- 18.2 Needs Of The IP Licensee In Complex Arrangements
- 18.3 Possible Adverse Consequences of Required Licensee Purchases Of Goods/Services
- 18.4 Describing Technical Assistance
- 18.5 Issues That Arise From “Lending” Personnel

## **Chapter 19**

### **LICENSE SECRECY PROVISIONS**

- 19.1 To Cover Confidential Matter Disclosed In The Course Of The License
- 19.2 Disclosures Are Made To *Individuals*
- 19.3 Method Of Disclosures Should Be Detailed
- 19.4 Some Disclosures Might Justify Restrictions On Individuals' Competitive Activity
- 19.5 Restricting Competitive Activity By Entity Disclosees
- 19.6 Clarifying A Disclosee's Burden Of Proof If It Asserts An Exception To Confidentiality

## **Chapter 20**

### **MOST FAVORED LICENSEE PROVISIONS**

- 20.1 Fairness *And* Comparability Are Often The “Deal” Goals Of Licensees
- 20.2 MFL Covering Royalty And Possibly Other License Terms
- 20.3 “Elaborating” What MFL Means
- 20.4 MFL Can Be Like Janus, Facing Both Ways

## TABLE OF CONTENTS

---

### Chapter 21

#### HOW LONG THE LICENSE AND WHAT EVENTS CAN END IT?

- 21.1 The Termination Provisions In The License Agreement Should Inspire You To Think Analytically
- 21.2 IP Licenses Have An Indefinite Term Even If That's Not What They Say
- 21.3 In Some Licenses, The License Survives The Contract Term
- 21.4 Considering How To End The Relationship Is Best Done When The Agreement Is But A Prospect
- 21.5 Material Breach
- 21.6 Bankruptcy Can, But Needn't, End An IP License
- 21.7 During Negotiations, As An Exercise, Play Out "Likely" Kinds Of Breach Or Failure Of Performance And The Impact
- 21.8 Consider Self-Help
- 21.9 Termination Events Can Have Wide Ranging Implications
- 21.10 The Term Of The Agreement And Of The Licensed IP Can Differ
- 21.11 Change Of Identity Of A Party
- 21.12 Bankruptcy
- 21.13 Termination Usually Involves Notice
- 21.14 Impact Of Termination On Licensee's Sublicensing
- 21.15 Breach Occurring During Litigation
- 21.16 Step Termination
- 21.17 Post-termination Competition

### Chapter 22

#### BOILERPLATE: CAVEAT SLAVISH COPIER

- 22.1 Thoughtless Boilerplate Can Ruin An Otherwise Excellent IP License
- 22.2 Selecting Home State Governing Law And Courts Is Not Necessarily To Your Advantage
- 22.3 Think Remedies
- 22.4 Fixing Damages In The Agreement
- 22.5 Alternate Dispute Resolution: Beware The Standard Form Contract!
- 22.6 "Bespoke" (Or, For The Non-Anglophile, "Tailored") Arbitration: The Parties Write Their Own Procedural Rules
- 22.7 Ways To Influence The Pace Of Arbitration
- 22.8 Baseball Arbitration

- 22.9 Integration: That's All There Is, Folks
- 22.10 Assignment, Or "Who's Actually A Contractual Party"
- 22.11 Effectiveness
- 22.12 Notice
- 22.13 Sign On The Dotted Line

**Chapter 23**

**COMMENTED KEY POINTS (A QUASI OUTLINE OF AN  
IP LICENSE)**

**Appendix A**

**SOURCE OF LAW FOR SPECIFIC IP**

**Index**

# ABBREVIATED REFERENCES

---

This Guide is designed to give down to earth, yet sophisticated, guidance to virtually every corner of IP licenses. It is designed to aid you to think through the key aspects of each part of an IP license, including key legal concerns that bear on specific provisions. In this way the Guide appreciated that not only do you have to understand how each form of IP plays out in the licensing context, you need to considered the impact of matter unrelated to IP, such as taxation, antitrust and bankruptcy law. Toward that end, the Guide provides pinpointed references to a select group of treatises in case you want to delve further into a particular topic that is particularly important for your transaction. For ease of the reader's use, we list below those treatises and the form of abbreviation for that treatise that is used throughout this Guide:

<i>Abbreviated Reference</i>	<i>Full Citation</i>
Brown, <i>Franchising</i>	Harold Brown, J. Michael Jeffrey S. Dady, Haff, and Ronald K. Gardner, <i>FRANCHISING: REALITIES AND REMEDIES</i> (2010)
<i>Collier Guide to Chapter 11</i>	Alan N. Resnick & Henry J. Sommer, <i>COLLIER GUIDE TO CHAPTER 11: KEY TOPICS AND SELECTED INDUSTRIES</i> (2011)
Glickman, <i>Franchising IP and Antitrust</i>	Gladys Glickman, <i>FRANCHISING</i> (2011)
<i>Licensing</i>	Hovenkamp, Janis, Lemley, and Leslie, <i>IP AND ANTITRUST</i> (2012)
<i>Taxation of IP</i>	Roger M. Milgrim & Eric E. Bensen, <i>MILGRIM ON LICENSING</i> (2012)
<i>Trade Secrets</i>	Marvin Petry & Kenneth R. Appleby, <i>TAXATION OF INTELLECTUAL PROPERTY AND TECHNOLOGY</i> (2010)
	Roger M. Milgrim & Eric E. Bensen, <i>MILGRIM ON TRADE SECRETS</i> (2012)

# SUMMARY OF CONTENTS

---

**Abbreviated References**

**Introduction and the IP Licensing Toolbox**

**Chapter 1 Prelicensing Considerations**

**Chapter 2 Prelicensing Steps**

**Chapter 3 Parties**

**Chapter 4 Recitals**

**Chapter 5 Definitional Considerations**

**Chapter 6 Terms of Grant: Assignments and Licenses**

**Chapter 7 Strategizing IP Grant Approaches**

**Chapter 8 Other Matter Furnished Apart From The IP Grant: At Or Near Inception**

**Chapter 9 Improvements: Basic Reflections**

**Chapter 10 Hybrid Licensing**

**Chapter 11 Ancillary Matter**

**Chapter 12 Licensor and Licensee Improvements: Nuts and Bolts**

**Chapter 13 Cash Consideration**

**Chapter 14 Technical Assistance**

**Chapter 15 Royalty and Royalty Statements**

**Chapter 16 Infringement and Misappropriation**

**Chapter 17 Representations, Warranties and Covenants and Limits On Licensor Liability**

**Chapter 18 Goods, Services or Facilities As Part of the Licensing Transaction: During the Course of the License**

**Chapter 19 License Secrecy Provisions**



**Chapter 20 Most Favored Licensee Provisions**

**Chapter 21 How Long the License and What Events Can End It?**

**Chapter 22 Boilerplate: Caveat Slavish Copier**

**Chapter 23 Commented Key Points (A Quasi Outline of an IP License)**

**Appendix A Source of Law for Specific IP**

**Index**