

## Intellectual Property

JULY 2005

CONVERGING LEGAL ADVICE WITH  
INTELLECTUAL PROPERTY EXPERIENCE

Dear Friends:

*As the world becomes smaller and smaller, the protection of intellectual property worldwide becomes more important. Jaeckle Fleischmann & Mugel's Intellectual Property Practice Group is comprised of attorneys and staff who can help you understand the value of intellectual property and help you determine how best to protect your intellectual property. At the core of our representation is the preservation of intellectual property, with immediate attention to protection of assets, including patents, trademarks, copyrights and trade secrets. Accompanying issues often revolve around licensing, franchising, litigation, mergers and acquisitions, taxes, antitrust, alternative dispute resolution, opinions, and due diligence. Working together, our team of patent attorneys, patent agents and paralegals aid companies in establishing a strategy, assessing areas of competitive risk and developing procedures for the acquisition, protection and licensing of intellectual property. If you would like to meet to discuss how our intellectual property attorneys might assist you, please contact me at 716.843.3905 or [jtanous@jaeckle.com](mailto:jtanous@jaeckle.com).*

With kind regards,

James J. Tanous, Esq.

### SUCCESSFULLY LICENSING INTELLECTUAL PROPERTY

Successfully licensing intellectual property ("IP") can be tricky. Although a license agreement is often perceived as a routine contract, navigating the nuances of the intellectual property laws to create an agreement that is understandable and reflects the intent of all parties can be challenging.

If you are licensing someone else's IP, in order for a licensing arrangement to be successful you should first answer three critical questions: Why am I licensing this particular IP? What do I need to achieve that goal? How do I know that I have identified the IP I need?

If you are licensing your IP to another, the questions become: Why am I licensing to this particular person? What do I know about this person? And most important of all, How do I get paid?

Through due diligence of the other party to the transaction, as well as a



clear definition of the IP at issue, you will often arrive at the answers to these questions easily. However, those matters are often neglected by parties to a licensing arrangement.

Before you begin to draft the license agreement, some important questions you should have answered are as follows.

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## SUCCESSFULLY LICENSING INTELLECTUAL PROPERTY

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### How do I know that the party I am contracting with owns the IP?

At a minimum you should check applicable records through the Copyright, Trademark and Patent Office's on-line databases (located at [www.copyright.gov](http://www.copyright.gov) and [www.uspto.gov](http://www.uspto.gov) respectively). In some cases, even properly recorded documents might not be enough. For example, if the owner of a trademark fails to police the trademark against infringers or fails to maintain quality control over authorized users of the trademark, the owner may lose the right to prevent others from using that trademark. If you are licensing the trademark to capitalize on the good

**2** will represented by the trademark and to secure exclusive use of that trademark in a certain territory, the owner's loss of rights could be disastrous. Additionally, a trademark registration or patent in the United States does not, by itself, secure rights outside of the United States. It is critical that the party you are dealing with has rights to the trademark in the jurisdiction where you are interested in using it for business purposes. Finally, even if a patent is issued, poor drafting could result in the patent lacking the protection you need. If a patent to be licensed is of particular importance, it is a good idea to have an experienced patent lawyer review

the patent's claims to make sure that you will receive the expected benefit from licensing the patent.



### Do third parties have rights to the IP, or rights you need to use the IP as intended?

If patents are being licensed, be aware that the law vests patent ownership in the inventor (not necessarily his or her employer), requiring confirmation that the party you are dealing with has proper assignments from its inventors. If software is being licensed, you need to determine whether or not third party contractors were used to design the software or whether any third-party owned software is necessary to operate the software you will be licensing.

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If so, you will need permission from that third party to use its software to prevent you from violating the third party's rights.

### Do you need any services to use the IP?

Rights granted under a license to make, use or sell a patented technology may be worthless without a clear understanding of the product's functionality and how to produce and maintain the technology. This information, commonly called "know-how," may be contained in a number of places, such as drawings, tooling, written specifications and the inventor's mind. Having access to this know-how, and identifying whether or not the party you are dealing with will provide its personnel to assist with your use of the IP, are pivotal components of a licensing agreement. In many instances, particularly where software is licensed only in object code format, you may need maintenance, customization and technical support services to use the software as intended. A licensing agreement should ensure that the

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party from whom you are licensing the software is able to adequately perform those services and that you have agreed to terms on the provision of those services before you license the software. Waiting until after you sign the license agreement could result in the unpleasant surprise that you may not be able to receive the services you need or that those services come at a price much different than you expected.

If you are licensing your IP to someone else, understanding some basic facts about the other party can make a difference between a smooth and profitable relationship and a nightmare.

### **Why are you licensing your IP to this particular party?**

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If you are simply licensing IP, such as software, to a party for its internal business use, your answer might simply be to increase revenue. If you are licensing IP for another party to make and sell, it may be because that party has a sales infrastructure and/or manufacturing facilities that you lack. Either way, the answer to the basic question of why you are licensing your IP to this particular party will influence each and every other term of the licensing arrangement.

The simple fact that another agrees to pay you for licensing your

IP should never, by itself, be a sufficient answer. For example, granting someone a non-exclusive license to make and sell your software may not seem problematic. After all, general thought would follow that being a non-exclusive



license, if the party fails to perform, you can always license the IP to others. While that is true, the next non-exclusive licensee may not be willing to agree to the terms you want, knowing that another party has the right to make and sell a competing product. Further, you have eliminated your ability to grant an exclusive license, which would most likely involve higher royalties and include less overhead in dealing with one licensee.

### **How do I get paid?**

IP licensing often involves a variety of payment models, varying from simple payment upon invoice, to up-front payments with royalties based on detailed definitions of the royalty base, including multiple

payment events and changes in the parties' rights if those events do not occur. There are no "standard" payment terms. The condition of the market, the nature of the IP and what each party brings to the transaction influence payment terms and they will vary widely. Whatever the royalty structure, you need to understand the licensee's past payment history,

current financial condition and what will happen if payments are not made in a timely manner. The first step should be obtaining and reviewing the licensee's financial statements and reports from credit reporting agencies such as Dun & Bradstreet. Upfront payments or prepaid royalties which could be offset against actual royalties as they accrue, help offset the risk of licensing to a financially questionable party. Reserving the right to

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terminate the license if payment is not timely is also an option. Other alternatives include an exclusive license reverting to a non-exclusive license, taking a security interest in inventory produced using the licensed IP, or including a license clause requiring the non-paying party to pay your costs of collection.

One issue to watch out for if you are licensing your IP to another to resell product, is to make sure that royalties are calculated upon all uses of your IP. For example, the license agreement should address what royalties are due if a resold product is transferred for consideration other than cash, or if a resold product is transferred, without payment, to a subsidiary or affiliate for final distribution to the end user.

The final factor to consider in preparing a licensing agreement is to address your rights relative to confirming that you have been paid the correct amount. It is imperative to retain a contractual right to audit books and records to confirm proper payment. It is good practice to retain a contractual audit right even if you are simply licensing your IP for another's internal use for the purpose of confirming that the IP is not being used for any other purposes. Sometimes the other party will take issue with such a request on the theory that the audit may encompass confidential information

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## Our Intellectual Asset Management Practice

The Intellectual Property Practice Group at Jaeckle Fleischmann & Mugel does not limit its services to the routine filings often associated with an IP practice. Rather, in order to provide a full range of intellectual property legal services for our clients, our IP attorneys and professional staff work closely with attorneys from our other practice areas to assist companies in maximizing their ability to benefit from the proper analysis and management of their intellectual property portfolio. We assist our clients in analyzing their competitive position, identifying cost savings techniques, and creating revenue-generating opportunities. Each engagement for such services is based on the unique objectives and areas of emphasis of our client, and often involves us in the following activities:

- *Identification and cataloging of intellectual property assets.*
- *Identification of the legal and commercial strengths and weaknesses of a portfolio's position.*
- *Recommendation and implementation of alternative methods of intellectual property maintenance and protection worldwide.*
- *Identification of infringement candidates and recommended approach to licensing, joint venture, acquisition or litigation.*
- *Review of intellectual property procedures and processes, and the identification of potential risks and liability issues.*
- *Review and planning of tax issues involving the ownership and transfer of intellectual property.*
- *Recommendation of a methodology for valuing an intellectual property portfolio.*
- *Evaluation of intellectual property relative to business plans and related research and development.*
- *Evaluation of the competitive positioning of an intellectual property portfolio relative to the client's industry and trends within that industry.*
- *Education of executive management and directors regarding intellectual property issues and holdings.*
- *Advice relative to corporate governance and internal control issues regarding the creation, protection and maximization of intellectual property and other intangible assets.*

If you are interested in hearing more about how we might assist you in strategically evaluating your intellectual property portfolio, please contact Jeffrey H. LaBarge at [jlabarge@jaeckle.com](mailto:jlabarge@jaeckle.com) or 585.899.2954 or James J. Tanous at [jtalous@jaeckle.com](mailto:jtalous@jaeckle.com) or 716.843.3905.

## PROTECTING TRADEMARKS IN INTERNATIONAL MARKETS — PROS AND CONS OF THE MADRID PROTOCOL FOR U.S. COMPANIES

Trademark rights vary significantly from country to country. Companies intent on protecting trademarks in international markets often find that working with each country's trademark law is intimidating, confusing and expensive. However, on November 3, 2003 those challenges were mitigated somewhat when the U.S. became a party to The Protocol Relating to The Madrid Agreement Concerning the International Registration of Marks—commonly known as the Madrid Protocol or the Protocol.

The Protocol permits a U.S. company to register a trademark in all countries that are parties to the Protocol with a single application, in a single language and using a single currency,

thus presenting an opportunity to significantly reduce the costs and complexity of filing for trademark protection internationally.

A company may file a U.S. “Basic Trademark Application” and submit an “International Application” through the United States Patent and Trademark Office (“USPTO”) and request trademark registration in countries that are members to the Madrid Protocol. The USPTO then forwards the International Application to the International Bureau of the World Intellectual Property Organization, the agency responsible for administering the Protocol. If all filing formalities are satisfied, an “International Registration” is issued. The International Registration is then sent to the trademark office of each


country where the applicant requested registration. Each such “Request for Extension of Protection” is then reviewed under the substantive law of that country. Generally, registration must be issued or denied within 18 months and if a registration is issued, its filing date will be the date the Basic Trademark Application was filed with the USPTO or any earlier date claimed under international laws.

Although the Protocol presents opportunities for U.S. companies to protect trademarks in international markets, use of the Protocol poses traps for the unwary. The International Registration and any Extensions of Protection are dependent on the status of the Basic Trademark Application for a period of five (5) years. For example, if the Basic Application is amended, refused registration, successfully opposed, or if a registration is issued and subsequently cancelled, or, in the case of an intent to use application, a registration is not issued due to non-use within the statutory period, the International Registration and all Extensions of Protection will also be so amended or cancelled. Because the International Registration and all Extensions of Protection must be identical to the Basic Trademark Application, a Basic Trademark Application will likely protect the trademark from broader claims which might otherwise be available if an application was filed directly with a foreign national trademark office where a broader goods or services description is permitted. Finally,



Extensions of Protection cannot be amended and cannot be assigned to a party that would not be eligible to file itself through the Protocol.

With the U.S. accession to the Madrid Protocol, U.S. companies have a new tool available to protect trademarks in international markets which can significantly reduce the costs of filing and administering their trademark portfolio. At the same time, using the Madrid Protocol without first understanding its limitations can be to your company's economic and legal detriment. While the use of the Madrid Protocol is undoubtedly an important consideration when determining how to best protect trademarks internationally, that decision still requires clear understanding of your company's goals and how they can best be achieved through all available legal means.

If you have any questions regarding the Madrid Protocol or would like more information, please contact Jeffrey H. LaBarge at 585.899.2954 or [jlabarge@jaeckle.com](mailto:jlabarge@jaeckle.com), or Mauri Aven Sankus at 585.899.2953 or [msankus@jaeckle.com](mailto:msankus@jaeckle.com). 

## FOR MORE INFORMATION

If you have any questions or would like further information, please contact:

### ATTORNEYS

**Dennis B. Danella**  
585.899.2957; ddanella@jaeckle.com

**J. Montieth Estes**  
585.899.2949; mestes@jaeckle.com

**Ronald J. Kisicki**  
585.899.2966 • 716.250.2850  
rkisicki@jaeckle.com

**Jeffrey H. LaBarge**  
585.899.2954; jlabarge@jaeckle.com

**Robert D. Lott**  
585.899.2963; rlott@jaeckle.com

**Katherine J. McGuire**  
585.899.2936; kmcguire@jaeckle.com

**Mauri Aven Sankus**  
585.899.2953; msankus@jaeckle.com

**Susan J. Timian**  
585.899.2958; stimian@jaeckle.com

### PATENT AGENT

**Lee J. Fleckenstein**  
585.899.2956; lfleckenstein@jaeckle.com

The Jaeckle Advisory has been prepared by the Intellectual Property attorneys at Jaeckle Fleischmann & Mugel, LLP and is intended for general information purposes only and should not be considered legal advice. You are urged to contact an attorney concerning any specific questions you have relating to your own situation.

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or trade secrets that it desires to protect. That issue can easily be addressed using an independent accounting firm to conduct the audit and agreeing in the contract what information the auditor report may contain and how that information can be used. While it is typical for you to bear the costs of the audit, if the audit identifies that royalties were improperly paid, the costs of audits are typically shifted to the other party along with, of course, payment of all royalties shown to be due.

While the above list of questions is not by any means an exhaustive list of all issues to consider with regard to the licensing of IP, receiving answers to the above questions will allow you to evaluate whether the transaction is worth entering into, and if so, will set the stage for an efficient negotiation of the license agreement. Failing to address these questions is likely to result in wasted time and money, and unfavorable results.

If you have any questions regarding licensing IP or would like more information, please contact Jeffrey H. LaBarge at 585.899.2954 or jlabarge@jaeckle.com. 

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Jaeckle Fleischmann & Mugel, LLP • www.jaeckle.com • info@jaeckle.com

### BUFFALO

Twelve Fountain Plaza  
Buffalo, New York 14202-2292  
Phone: 716.856.0600  
Fax: 716.856.0432

### AMHERST

Centerpointe Corporate Park  
400 Essjay Road, Suite 320  
Amherst, New York 14221-8228  
Phone: 716.250.1800  
Fax: 716.250.1806

### ROCHESTER

190 Linden Oaks  
Rochester, New York 14614-1310  
Phone: 585.899.2930  
Fax: 585.899.2931

