



21st Century Licensing Strategies

Digital Convergence, International Issues & Hollywood
or
How to Straighten Out a License in These Digital Days

California Bar Association
Annual Meeting 2008

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GLOBAL CAPITAL LAW GROUP PC



Who We Are & Are Not.

1. Global Capital has two sides:
 - Corporate, transactional & IP:
Global Capital Law Group PC
 - Strategic consulting:
Global Capital Strategic Group LLC
2. We don't have lunch with Gwyneth Paltrow.
 - We are *not* traditional entertainment lawyers: We don't do “pure” movie deals for a percentage.
 - Internet technology and content and advanced technology: “Beyond the bleeding edge.”

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1. Agenda.

1. Introduction.
 - Assumptions.
 - The Context.
 - The Issues.
2. The Term Sheet: Brief Comments.
3. The License: Closer Look.
4. Hollywood & International.

Caveat: Don't try this at home.

The provisions here are not legal advice and your mileage may vary—i.e., the right terms will depend upon the situation.

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Assumptions.

1. ***Audience:*** “Advanced” means that we will not be spending time on the basics.
2. ***Not all Licenses:*** Our framework is technology and digital content licenses—not music, not biotech, etc. We assume it is a license and not work-for-hire.
3. ***License Only: Staying Out of the Weeds:*** We will NOT discuss exceptions to the rule or the rare risks—may arise in the “Definitions” section.
4. ***Limits of Your Presenter:*** He doesn’t have all the answers—or even all the questions.

Let’s make this collaborative.

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The Context.

1. *True convergence?*

- Tivo and Amazon announced a partnership to enable viewers to **purchase items they see in television programming.**
- Television station WRAL begins a testbed to broadcast digital video **long-form programming to mobile devices.**

2. *Crumbling Walls of the Walled Gardens?*

- Facebook and Amazon (among others) **opened up their code** (e.g., API) to enable anyone to develop applications for them.

3. *Declining (or Non-existent) Revenues?*

- Very few companies are making money from the advertising model on the Internet (never mind mobile) and CPMs (and other payment metrics) are dropping fast.

4. *Limits of our Market & our Mindset? ROW*

- While News Corp. bought MySpace for \$600+ million several years ago, one year ago this month Nokia purchased **Navteq for \$8.1 billion dollars.** In other words, we are still a PC-centric market while **ROW is mobile-centric.**

5. *The Clash of Industries:*

- Hollywood v. the digital “tradition”: Hollywood wants to **own everything—even if it has not been invented.** Silicon Valley wants **discrete rights.**

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The Issues. Making the Agreement Flexible.

1. *How do you deal with convergence?* **Platforms, Technology, Users, Sublicenses.** Dangers of exclusive deals (e.g., technology that cannot handle changing content, platforms or technology). Know what it means—e.g., mobile. Include Updates & Upgrades in definition of technology. Include “New Versions?”
2. *Changing revenue model requires flexibility.* Negotiating tactics will come into play. New revenue streams (**data and datastreams**).
3. *International means more than territory.* Territory is still problematic but what about EU privacy laws? Claims of non-American legal jurisdiction (**country of access v. country of origin**)?
4. *Just how important is Hollywood to your model?* If content, perhaps important; if technology, probably not? Non-American media companies as an alternative?

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The Overall Point #1: 1 or Bi-Directional Models Do Not Work.

- From “Push” to “Pull” to lean back/lean forward.
Insufficient license model.
- Now:
 - 360 Interaction: Up, down & sideways in the distribution chain.
 - Multiple platforms.

Mantra:

Any content anywhere anytime any platform.

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The Overall Point #2: Content & Technology Converge.

1. Mantra challenges “day and date” model: “Repurpose” v. platform-specific content.
2. Content feedback loop: UGC (e.g., fan fiction”) creates new content—and opportunities.
3. Each platform (often) requires its own distribution technology: programming requires “programming” (i.e., coding).



2. The Term Sheet. Make It Useful.

To guide negotiations & drafting, make the Term Sheet **comprehensive** in:

1. All controversial *legal* topics should be covered in detail (indemnification).
2. Topics on which you will need clarification from client later:
 - Legal/business issues—e.g., license, term & termination and payment procedure.
 - Business issues—compensation, revenue split.
 - Technology—becomes the basis for exhibits.

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The Term Sheet: Know the Effects.

1. Comprehensive coverage at the outset *smokes out* positions and enables business side to make choices.
2. But . . . perhaps you do not want issues raised at the outset. *Horse swapping* during drafting?

Do you want to negotiate from the drafts or is the agreement memorializing the pre-existing agreement?

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3. The License: Hot Spots.

Licensor	Reps & Warranties (title to technology)
Licensee	Sublicenses, assignment limitations
Definitions	Give you the flexibility/constraints
Scope	Magic language + Platforms + XYZ; Ownership
Revenue model	Payment schedule (exhibit), clear math (examples?), audit rights, Metrics, new data sources
Reps, etc.	Technology ownership (Open Source licenses), international law obligations.
Choice of Law, etc.	California, New York, UK/FR arbitration?
Technology	Definitions, Product Specs and SLA



Some License Issues: A Few Quick Comments.

Metrics:

- Technical: (Schedule 3): Look-and-feel and delivery metrics (e.g., frame rate).
- Performance (Schedule 4: SLA): Uptime & measurement period.
- Advertising: (Exhibit 2): Do the metrics exist for page views, etc.?

Term & Termination: Need flexibility and list a broad range—”traditional” breaches and technical breaches.

Representations & Warranties:

- Who owns what?
- Globalization affects reps.

Indemnification: IP risks are often carved out. UGC is causing problems. As mobile scales, so will lawsuits.

Business Failure Issues: How does a large client protect against smaller companies going under? No solution.

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Licensor & Licensee: Where They Show Up.

1. Who is it? Use a “bring-down” certificate?
Due diligence obligations?
2. Subsidiaries and “Siblings”:
 - Restrict (or not) right to license or assign to subsidiaries & siblings (sublicense section & assignment).
3. Reps & Warranties: corporate existence and all rights to perform.



Definitions: The Context.

Definitions draw critical lines as to technology and uses.

- Technology: Licensed Technology—updates, upgrades included? Developer's toolkit? New discoveries? (the plumber analogy).
- They should be drafted as definitions and NOT as obligations or restrictions. (those go in license or ownership).

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Technology Definitions: Drawing Lines.

- Essential for ownership/rights basis (chain of title).
- What is being licensed? Updates, Upgrades, New Versions; “Critical Technology” & “Developed Technology”
- Consequences of the deal (i.e., collaboratively developed, new developer tools)?

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Technology Definitions (cont'd).

1. Licensed Properties (whatever): define content and delivery system & display platform (API feed, etc.); Upgrades, etc., and “critical” technology?
2. Documentation.
3. Platform.
4. Technology: pre-existing; developed during Term; and jointly developed.



More Technology Definitions.

Use the Term Sheet as the basis for the definitions. Examples:

“Core System” shall mean the *Software Program* operated by Licensee and developed and maintained for Licensee by Licensor prior to the development, installation and/or integration of any customer programming or other technical work by Licensor as set forth on Attachment X.

“Documentation” shall mean any and all materials and information provided by Licensor to Licensee in connection with the use of the *Software Program*. Such materials shall include all documentation and specifications detailed in Attachment X. (*Programming annotations?*)

“Updates” shall mean any and all modifications, enhancements, customization, updates, replacement and revisions to the *Software Program* pursuant to this License Agreement or the Maintenance Agreement, as the case may be, and/or when offered by Licensor to Licensee and in each case at the sole and exclusive option of Licensor. *New Versions* are excluded from Updates.

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Technology Definitions (cont'd).

Conflicting definitions:

Anything developed during the agreement:

“Developed Technology” means all works of authorship, discoveries, improvements, inventions, information and trade secrets that are first conceived, made, created, reduced to practice or fixed in a tangible medium of expression **by Licensor alone, or jointly by Licensor and Licensee, in the course of the development under this Agreement.** (no good for Licensor: covers everything).

Tools used by the Licensor developed during the agreement:

“Developed Technology” means all works of authorship, discoveries, improvements, inventions, information and trade secrets that are first conceived, made, created, reduced to practice or fixed in a tangible medium of expression by Licensor that are used to create, **but are not, elements of the Licensed Technology**

This varies whether a work-for-hire, pre-existing technology, development + licensing.

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Technology Definitions (cont'd).

“Underlying Technology” means any software, technology, know-how, proprietary techniques and other trade secrets that Licensor developed prior to the Effective Date and any derivatives therefrom after the Effective Date developed by Licensor that are used to develop products or services, but **excluding Critical Technology**.

No-no: Licensee acknowledges and agrees that Licensor shall be entitled to freely use, develop, license, sell, lease, market and commercially exploit any Underlying Technology in any manner. **This does not go in the Definitions section.**

Often called “Developer Toolkit”

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Advertisements Definition: Keeping up with the Joneses.

“Advertisements” means advertisements including without limitation banners, big boxes, superbanners, mastheads, buttons, skyscrapers, advertorials and pop-ups sold or otherwise provided directly or indirectly through Licensor and for display on or access through any Licensor Platform.

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Advertisements: Revised.

“Advertisements” means those portions of display on each Licensor Platform to be made available to advertisers by or on behalf of Licensor, including without limitation banners, big boxes, superbanners, mastheads, buttons, skyscrapers, advertorials, mobile alerts, SMS, MMS (and other forms of text messages) and pop-ups (as such terms are used by the Internet Advertising Bureau during the Term and including successor terms provided by the Internet Advertising Bureau).

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Platform Definition:

The Core of 3-Screen Convergence.

It is the method for display and interactivity of content during the Term: Flexible expansion of display?

“**Licensor Mobile Site**” means each site on which Content is displayed via a protocol for the display or transfer of digital information and that is designed for access by a User utilizing WAP or other standard for display on a digital mobile device.

“**Licensor Platform**” means (i) each Licensor IPTV Site, Licensor Desktop Application, Licensor Mobile Site, Licensor Mobile Alert and/or (ii) any device by which digital information can be displayed during the Term and that Parties specify from time to time in an Exhibit.

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Grant & Scope of License: The Core.

1. Grant of license from Licensor to Licensee for specified scope for Term for specified uses (in exhibit?) with explicit sublicense right (or not).
2. Clear description of sublicense.
3. Clear restrictions on use.
4. Clear statement of reserved rights and of ownership.

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License Grant & Scope Example: Oops.

1. Party A shall license the following non-exclusive, legal and valid "content including SMS and MMS messages" to Party B to use in the People's Republic of China (excluding Taiwan, Hong Kong and Macau).
2. Party A shall license to Party B to use, broadcast, exhibit and transmit the "content including SMS and MMS messages" through the Internet, "wireless telecommunications equipment" or other media, and permit users of Party B's website to download such content. Party B shall transmit such "content including SMS and MMS messages" to mobile telephone users according to their requests through a link between the server of Party B's website and the gateway of the mobile telecommunications operators, or by transmitting from the server of Party B's website and through a link between a third party's server as specified by Party B and the gateway of the mobile telecommunications operators of Party B's website.
3. Subject to the provisions under this Agreement, Party B shall not provide to any third party the "content including SMS and MMS messages" for the use in any profit-making commercial activities without the consent of Party A.

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The License Grant: Can It Survive *Jacobsen*?

3.1 License Grant. Licensor grants to Licensee for the Term a non-exclusive, limited, royalty-free, non-transferable (except as explicitly permitted herein) right and license, with a limited right of sublicense (as set forth below), to use, display, perform, transmit, distribute and reproduce the Licensed Properties on and via each or any combination of Licensor Platforms and solely so that Licensee may exercise its right and perform its obligations hereunder in all cases subject to the terms and conditions of this Agreement.

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License Grant (cont'd): Restrictions & Conditions.

3.2 Restrictions. Other than those rights granted to Licensee herein, no rights or licenses, express or implied, are granted by this Agreement, provided, however, that rights granted by this Agreement shall ensure that Licensee shall have the rights necessary to effectuate the terms of this Agreement. All other rights are reserved by Licensor. Licensee has no right or license to do any of the following:

- (a) Decompile, disassemble, reverse engineer, modify or create any derivative works resulting from the Licensed Properties or any part thereof, except and only to the extent that applicable laws specifically prohibit such restrictions;
- (b) Knowingly permit the use of the Licensed Properties by or for the benefit of any unlicensed third party other than Users;
- (c) Make copies of the Licensed Properties other than as set forth in this Agreement and backups of content on Licensee Platforms.

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AN EXPLICIT GRANT.

3.1 License Grant. Subject to the terms of this Agreement, Licensor grants to Licensee a non-exclusive and non-transferable license **with a right to sublicense** solely as described below, to:

1. Use the Software to create each Page or **Mobile** Page;
2. **Sublicense to end users** of each Page or **Mobile** Page, as the case may be, such rights as are strictly necessary to interact with the Page or the **Mobile** Page, as the case may be, and use the Software for its intended purposes;
3. Display, **and sublicense to each User to allow each such User** to display, the Output;
4. Display a Link on each **Administrative Site** to the appropriate Page;
5. Display any Page or any content from a Page in a manner that it may be **viewed on a Mobile Device via Mobile Applications** ;
6. Permit Licensee to host **Mobile** Pages;
7. **Sublicense to each Site Manager** the right to transmit any Page or any content from a Page **to a Mobile Device via a Mobile Page or by technology permitting messages to be transmitted to and/or from Mobile Devices**; and
8. **Such other uses as set forth in Exhibits from time to time attached to this Agreement.**

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OR BETTER . . .USE EXHIBITS.

3.1 *License Grant.* Subject to the terms of this Agreement, Licensor grants to Licensee a non-exclusive and non-transferable license (with a limited right of sublicense) in the **Licensed Property and for the Uses set forth on Exhibit B.**

(Add “rights limitation” section in all cases.)

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SCOPE (cont'd):

SPECIFY SUBLICENSE RIGHTS.

Sublicenses: Follow the bits & bytes.

- For hosting (or other technical partners): will need it.
- For stations/affiliates (or other distribution nodes):
 - “admin” access; input access
- For other platforms (if content & if managed by third party).
- For End Users:
 - How far can the Users extend their use rights?

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THEREFORE,

Pay attention to defined terms:

- Page, Mobile Page, (User v. end user), Software, Output, Administrative Site, Site Manager. Why not “Content?”

Exhibit B should have:

- Separate section for each Use: create Pages, let User create UGC, Administrative use, Mobile display, 3d party hosting/API delivery, Mobile Alerts, Mobile interactivity, Sublicense scope, #8 mechanism for change.

Incorporate screen shots?

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TRAFFIC METRICS DETERMINE REVENUES.

- Big question: What traffic metrics?
 - “Page view” definition: headline or link v. actual content
 - Impression v. page view v. clickthrough (challenging in mobile—clickthroughs are very low due to network speed).
 - Party hosting usually collects (third party software usually trusted: defined in exhibits—and can be replaced).
 - VNU (formerly Nielsen) getting better but not yet commonly used.

Usage Minutes (usually) only relevant in telco deals.

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4. Hollywood & International: Culture Resistant to Change.

Déjà vu all over again?

- Telecoms & media companies as gatekeepers:
 - Telecoms control the homedeck but smartphones & full-powered mobile browsers challenging. WAP difficult.
- Media companies are entrenched.
 - Fragmented distribution system (Networks are beholden to their O&O's and affiliates).
 - The industry “community” is unfamiliar and untrained:
How many agents can negotiate a mobile deal?
 - Sunk costs are enormous.

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Hollywood & Silicon Valley: Business Models Conflict.

Media: From big hits come big audiences for big advertisers.

Google: Aggregate *any* audiences for *any* ads.

- Audience numbers are too small for networks. *Daily YouTube video minutes uploaded = average cable show minutes broadcast.*
- \$32.2m in '07: \$1.4b in 2012. *Pocket change.*

Silicon Valley: Split the revenue.

Hollywood: Pay your partners on the backend & cover overhead upfront.

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DIFFERENT LEGAL CULTURE.

- “Short Form” mania: Oral agreements OK.
 - Booming business for litigators.
 - Over-reliance on inapplicable forms.
- We own everything you ever think of for exploitation: past, present and future.
- Technical knowledge is limited: Can a lawyer draft a mobile SLA?
- 5% deals and back-end terms.

Big news: South Park Web deal.

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Hollywood & IP

Hollywood “own it all” mentality: Everywhere & for all time..

The exclusive, irrevocable, right, license, privilege, and authority to **exploit** the Work in any manner, medium, form or language, **now known or hereafter devised, whether or not reasonably contemplated** as of the Effective Date, in its sole discretion, and to make copies of such exploitations and to exhibit, distribute, exploit, market, perform and make **digital transmissions** of the Work throughout the **universe in any and all media by any and all means, whether now known or hereafter devised . . .**

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SO WHAT?

Traditional Approach: Push it to the audience. Do you have the rights you need?

Exploit the Work:

- Includes right to edit, trailers, mobisodes?

Digital **transmission**:

- Interactivity? Mobile rights? Derivative works?

Universe:

- Defined term?

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OR THIS . . . WHERE'S WALDO?

RIGHTS. Company automatically and irrevocably shall own and be vested with, and Vendor automatically and irrevocably shall be deemed to have granted, conveyed, assigned, transferred and set over to Company, all right, title and interest in and to the Work, including without limitation any and all copyrights therein and thereto (and all renewals, extensions, restorations and resuscitations thereof) and any and all rights now known and used, under any and all such copyrights in perpetuity (but in any event for not less than the period of copyright and any and all renewals, extensions, restorations and resuscitations thereof), in any and all languages and in any and all media now known and used, now known and hereafter used, or hereafter known or devised and used **for the entire universe** (collectively, the "Rights"). Without limiting the generality of the foregoing, the "Rights" shall in any and all events include, without limitation, all right, title and interest in and to the following: (i) the sole and exclusive Motion Picture rights, including, without limitation, the sole and exclusive right to produce one (1) or more Motion Pictures or other derivative works (including, without limitation, sequels, prequels, remakes, musicals and/or serials) based, in whole or in part, on the Work and the right to fix, reproduce, release, distribute, exhibit, perform, transmit, broadcast, advertise, promote and otherwise exploit such Motion Pictures or other derivative works **by any and all means and in any and all media whether now known and used now known and hereafter used, or hereafter known or devised and used**, including, without limitation, all of the following: theatrical; non-theatrical (including airlines, ships and other carriers, military, educational, industrial and the like); pay-per-view; home video (including video-cassettes, digital videodiscs, laserdiscs, CD-ROMs, video-on-demand; near video-on-demand and all other formats); all forms of television (including pay, free, network, syndication, cable, satellite, high definition and digital): subscription-on-demand;

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WALDO (cont'd).

all forms of digital or on-line exploitation, distribution and/or transmission (including, without limitation, the internet), CD-ROMs, fiber optic or other exhibition, broadcast and/or delivery systems and/or computerized or computer-assisted media; all rights of communication to the public, rights of distribution to the public, rights of making available or other forms of public or private communication and/or distribution; and all forms of dissemination, communication or distribution to one or more locations or parties, whether embodied or transmitted utilizing analog, digital or other formats; (ii) all ancillary, incidental and subsidiary rights including, without limitation, all merchandising, (*e.g.*, games, computer, video and other electronic games, toys, comic books, so-called "making of books," apparel, food, beverages, posters, and other commodities, services or items), commercial tie-ins, co-promotions, music, music publishing, soundtrack, photonovel, novelization, screenplay publication, **interactive media**, multi-media, and theme park (or other "themed" or location-based attraction) rights in and to the Work; (iii) the right to make or publish excerpts, synopses or summaries of the Work for purposes of advertising, publicizing or exploiting the foregoing rights in and to the Work; (iii) the exclusive right to publish the Work or excerpts therefrom and (iv) the exclusive right to use the title or titles by which the Work may be now or hereafter known, or any components of any such title or titles (a) as the title of Motion Pictures and/or in connection with the advertising, marketing, publicity, promotion and other exploitation thereof, whether such Motion Pictures are based wholly or partially upon the Property or are independent of the Work, (b) in connection with songs, musical compositions, music or lyrics and/or phonorecords, whether or not included in any such Motion Pictures, and (c) in connection with the publication, recordation, performance, and any other use whatsoever of the foregoing items.

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SO WHAT?

1. Overreaching?

- Enforceable in the EU?

2. Multi-directional coverage?

- If mobile is not mentioned, does that mean “not contemplated?”
- No “pull,” no UGC, no alerts, no “lateral” dissemination by User?

3. Tricky application of Rule of *Ejusdem Generis*:

- General statements apply to same class of things or only things listed. “Cars, trucks, motorcycles” = land-based vehicles so planes and boats are excluded.
- The longer the list the more likely that missing items were *intentionally* omitted.
- Courts do not limit application to statutes.

4. Agreements as guidance for non-lawyers. Can you imagine *them* figuring this paragraph out?

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REVENUES ARE SPLIT.

- **Mobile is the problem:** No one knows how advertising works on mobile devices because of size—both of the screen and of the market.
- **Hidden fees:** Implementation costs usually low for tech & content but streaming costs are high even though market price is plummeting.
 - Building it on your nickel to sell to competitors at high margin.
 - Who owns? (Seek equity if dev. costs are substantial).

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REVENUES ARE SPLIT (2)

- Revenue split preferred (if scaling & costs do not affect budget) v. royalty/fee (non-scaling & costly).
 - Range from 60/40 (publisher/partner) up to 90/10 with volume.
 - Gross v. net heavily negotiated: Below 10%.
 - But, at scale it is still very, very expensive.



REVENUES & COSTS ⁽³⁾

- Networks must share with stations and others (e.g., producers, etc.).
- Who collects the money? Usually the partner.
 - Comprehensive audit rights (one way).
- The “Marquee Effect.” PR & Marketing provisions have \$\$ value.

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PERFORMANCE METRICS, etc.

Very important

Three sets of technical specs (all in schedules—”shall perform in accordance with Schedule X”):

1. Look-and-feel, location and links.
2. Performance specs (e.g., load time)
3. SLA/SLS: Uptime and response time.

WAP is disliked but it works.

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HIGH STANDARDS, BRIEF DOWNTIME.

Display Uptime: Hollywood is winning—and should win for the user experience.

- *Broadcast standard:* no dead air. *Silicon Valley:* The Microsoft model: CTRL + ALT + DEL.
- SLA metrics moving from monthly to daily or hourly.
- No cure period: rights of “suspension” or termination.
- Response time also crucial.

Measure at the head-end server; network carve-outs?

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TERM & TERMINATION: SHORT & BROAD.

With rapid changes, media companies want short periods:

- 1 year term with mutual extensions: risk good terms in exchange for flexibility.
- No cause termination on the rise: market power & Marquee Effect.
- Extensive grounds for termination.

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REPS & WARRANTIES: LEARNING AS WE GO.

Most important are:

- **IP Ownership:** Many technologies and content are cobbled together—Open Source, independent contractors. (Include “Exceptions” disclosure Schedule?)
- **Compliance with “applicable laws.”** European privacy laws????? Limit to US laws.
- **User-Generated Content:** DMCA “notice & takedown” as a safe harbor.

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INDEMNIFICATION: SAME AS IT ALWAYS WAS.

Giant landmine:

- Media companies as “deep pockets.” (Few partners have assets.)
- Insist on IP ownership protection from partner.
- UGC is heavily negotiated.

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PART II: BUSINESS FAILURE.

Two factors:

- Audiences are so large that scalability is a major issue. Companies or their technology can fail.
- Technology industry is highly volatile.

How to protect?

- Software escrow agreement. Complicates the negotiations (take a long time).
- Right to install “back up” partner.

Media companies worry about the audience.

The “Dead Air” fear.

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Thank You.

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