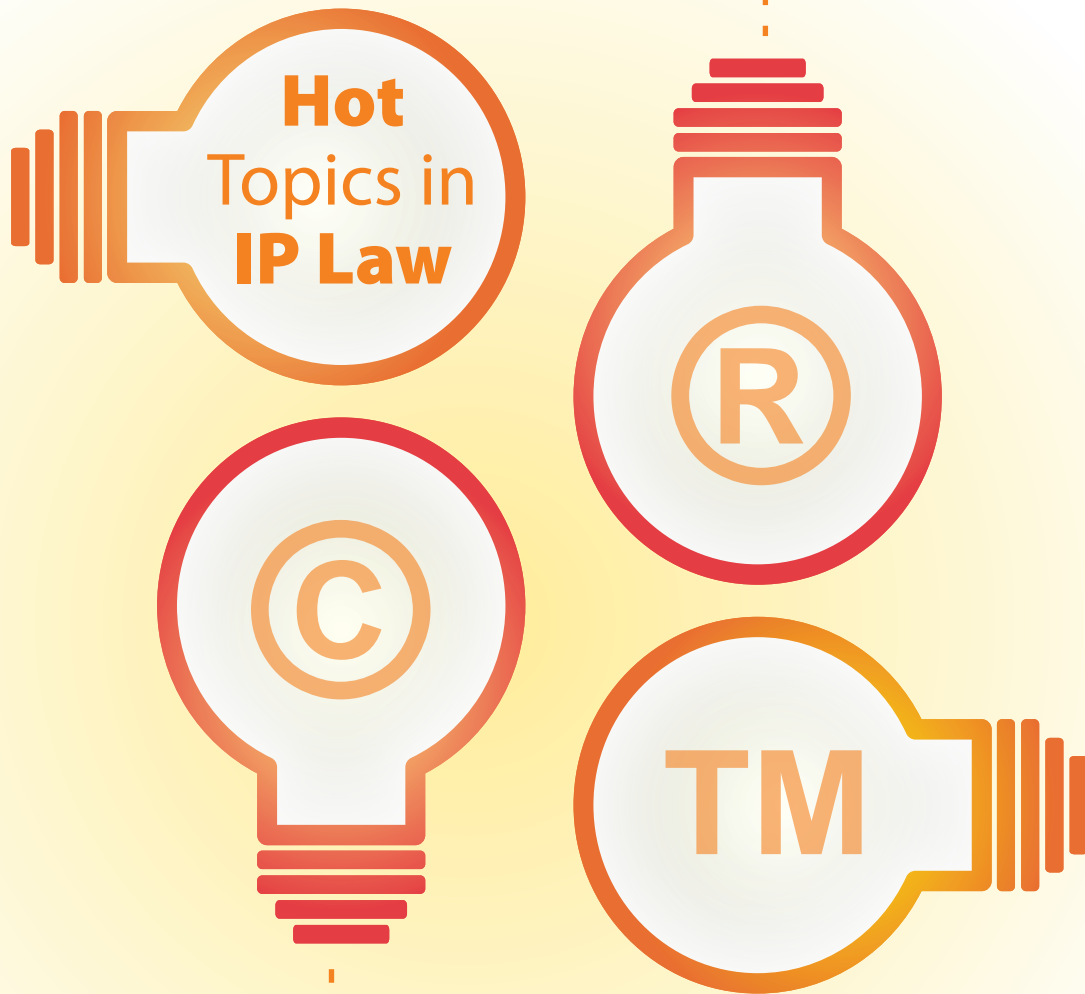


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A copyright is not a trademark and neither of those is a patent yet all three are part of intellectual property that can be bought, sold, and inherited. This issue of *New Mexico Lawyer*, written by the IP Section, offers articles that discuss the ins and outs of licensing, how IP rights can be lost by contract, and how the fine print can really ruin your day.

Intellectual Property Law Section

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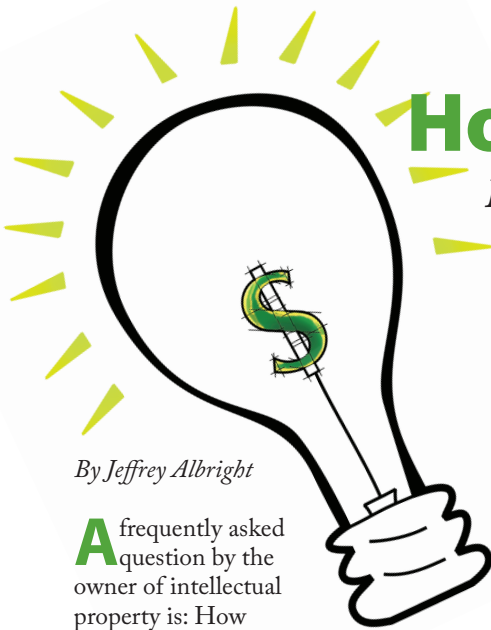
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How Much Is My IP Worth?

Determining Value for Licensing Royalty Rates Agreements



By Jeffrey Albright

A frequently asked question by the owner of intellectual property is: How much is my IP worth? The true answer might be, “Whatever a willing buyer is willing to pay to a willing seller.” But that answer doesn’t address the more difficult circumstance of how to determine the value when licensing the intellectual property for use by another. This article presents the different methods that are frequently used to calculate how much IP is worth when establishing royalty or licensing rights, the factors that can affect a product’s value, and some recommended “good practices” for potential licensing agreements. Such practices are meant to protect the owner’s intellectual property rights while maximizing profits, broadening brand exposure, and expanding markets.

In evaluating intellectual property rights, economists and IP appraisers generally use one of four methodologies to arrive at the actual value of the property: 1) market approach; 2) cost approach; 3) income approach; and (4) 25 percent rule.¹ These same methodologies are frequently used to determine royalty rates for the use of merchandise and trademarks in licensing agreements.

The **Market Approach** is the simplest and most frequently used method. It measures the present value of future benefits by determining what is happening in the marketplace today for a particular good, service or associated mark or brand. Three things are needed for this method to work: 1) an active market; 2) an abundance of comparable goods or services, and 3) values that are known. As an analogy, real estate brokers use this type of valuation when determining market values of homes or real property. The broker counts on an active market

with many buyers and sellers, a large inventory of homes, and known values of multiple sales. This latter factor is particularly important to smooth out the aberrations that could occur because a single sale might deviate from the market norm or skew the norm because its value is particularly high or low.

Determining comparability can be difficult, particularly for intellectual property. Factors such as the strength of the intellectual property within an industry, whether the property is dominant, and the commercial history of the property are all important. There could be prior history associated with the IP that gives it some advantage and more value. For example, the intellectual property and good will associated with a well-known group of family-owned Mexican cuisine restaurants in New Mexico may have more value than a newly created start-up restaurant. Circumstances will determine which factor or factors carry the most weight.

Cost Approach is the second method that is sometimes used to determine the

value of intellectual property. It measures the future benefits of ownership by quantifying the amount of money that would be required to replace the future service of the intellectual property. Depreciation must be considered when applying the Cost Approach since most intellectual property rights of the type being licensed may have been around for some time or may expire. The Cost Approach typically is used in the valuation of patents when there are no comparables and when there has not been a previous license. The question, “How much did it cost to develop?” then becomes relevant, and establishes a reasonable threshold valuation. The biggest problem with the Cost Approach model is that it does not take into account the market value of the IP. That is, if it took \$15M to develop the technology to produce a widget that sells for \$0.05 each, market analysis is needed to determine if a sufficient number of widgets could be sold at \$0.05 each to recover or exceed the initial \$15M investment over the lifetime of the patent. While granting multiple licenses might be considered, the value of each of those licenses would likely be

Auditing and Accounting Provisions Essential in Licensing Agreements

These typical auditing and accounting provisions should be part of every licensing agreement:

- Regular payment schedules and reporting requirements
- Time of sale and related company sale provisions
- Estoppel and acceleration provisions (i.e. failure to make one payment on time should not establish a precedent for future payments or non-payments)
- Interest provisions (perhaps with an adjustable rate)
- Payment terms for foreign payments, including exchange rate provisions
- Survival provisions—heirs and assigns; mergers/acquisitions; bankruptcy; payments in the event of license termination—or early termination
- Audit provisions, including frequency, costs, and who pays for what
- Payment of residuals following license expiration or termination
- Record retention provisions—for IRS purposes or other circumstances

Including these and similar provisions in the licensing agreement can avoid the need to amend the terms of the licensing agreement and also can avoid significant problems later.

diminished for each additional license. Additionally, competing patents or widget makers in the market could seriously dilute the value of each license.

The **Income Approach** addresses some of the factors generally overlooked in the Cost Approach model. The Income Approach does not look so much at the cost of construction or invention, but instead looks at the income-producing capability of the property. The underlying theory is that the value of the intellectual property can be determined by the present worth of the net economic effect. “[T]he worth of an asset, e.g., a building, land, equipment, stock, or a patent, trademark or copyright, is only what it can earn in the open market and that one must take into account its potential earnings to determine the inherent risk in the business setting.”²² When using the Income Approach, three essential factors are considered: 1) the amount of income that can be generated by the property; 2) the duration of the income stream; and 3) the risk associated with the forecast model. Accurately determining the rate of capitalization, i.e. the risk, is one of the greatest challenges in using the Income Approach and is usually left to “experts” in the field.

The last methodology is the **25 Percent Rule**. This technique is commonly used in the valuation of patents and technology. Simply stated, it calculates a royalty rate at 25 percent of gross profit, before taxes, of the company’s operation in which the licensed IP is used. Typically, gross profit includes the direct costs of producing the product, including raw materials, direct labor, manufacturing utility expenses, and depreciation. Generally it is the least accurate of the methodologies used. The method does not take into account risk factors and ignores the cost to market the product, which is typically the responsibility of the licensee.

Having chosen a methodology or some combination of methods for determining the value of IP, certain key provisions need to be included in every licensing agreement. These include, but are not limited to:

- The royalty rate/payment schedule
- Direct sales or F.O.B. (Free on Board) rates; split royalty rates (like the Nike symbol on University of Michigan T-shirts)
- Definition of net sales (defines the royalty base on which royalty is

calculated—usually includes gross sales, less deductions, credits, allowances and returns)

- Advances—payment made by the licensee upon execution of the license agreement
- Minimum royalty or guaranteed minimum royalty
- Sublicensing—the licensee only has the ability to grant sublicenses for those rights that it has acquired; (Most merchandising IP owners expressly prohibit sublicenses.)
- IP maintenance requirements—who is taking responsibility at the U.S. Patent and Trademark Office, U.S. Copyright Office or elsewhere
- Term (duration)

In addition to the compensation-related provisions, audit and accounting provisions need to be included in every licensing agreement.

Having prepared a good license with the licensee, what are some of the other “best practices” and provisions that a licensor should include in an IP license? There are at least four critical provisions of a licensing agreement that are frequently overlooked.

First is the inclusion of termination provisions. Frequently, both licensor and licensee are in such a euphoric state to consummate the initial license that termination clauses are either woefully inadequate or ignored. Few business deals go on indefinitely—Tiger Woods lost a host of endorsements after his domestic problems came to light; a company goes into bankruptcy; AT&T buys out Cricket; airlines merge. Include termination clauses that protect both licensor and licensee.

Second, ensure that sublicenses and terms for any derivative works and/or geographic reach provisions are included in the license agreement. The licensee may not want to compete with similarly situated competitors in the same geographic market. On the other hand, the licensor may want the option to expand the geographic reach that may be beyond the reach and the financial resources of the initial licensee, particularly for overseas markets.

Third, clearly define who has the responsibility to defend potential infringers of the intellectual property. This includes monitoring the Internet or social

continued on page 7

Evaluating Risk in the Income Approach Model

Income Approach can be defined by the mathematical equation $V = I/r$, where “V” is the revenue stream or value of the intellectual property, “I” is the income derived from the IP (taking into account net of cash inflows and outflows), and “r” is the rate that takes into account all business, economic, and regulatory risk. For example, if a patented drug for treating cholesterol has low risk, say 10 percent, the income from a \$2M investment would be \$20M. Serious side effects of using the drug might raise the risk factor to 50 percent. However, if the drug is suddenly banned by the government, the risk would rise to 100 percent, limiting the value to the original amount invested, which was \$2M dollars. Risk might even rise to more than 100 percent. That situation could occur if lawsuits were filed because of the effects of using the drug, thus expending additional money that might even exceed the initial investment of the IP.

Risk is difficult to determine, and can take many forms. There is always the potential that the government could impose regulatory constraints. Similarly, in the example used above, risk could go up if competing drugs, potentially manufactured at less cost, suddenly flood the marketplace. Occasionally, risk factors are known. For example, the expiration of a patent, leading to generic drugs in the marketplace, can also increase risk in the revenue stream. If the Income Approach model is used to determine the value of IP, risk factors are best left to be determined by experts in the field.



Patent Rights in Government Contracts: *The Basics*

By Samantha A. Updegraff

Contracting with the federal government is like dealing with no other customer. Nowhere is this axiom more true than when it comes to patent rights. Almost all government contracts are subject to a patent rights clause. Contractors who do not understand how patent rights are addressed under government contracts are at grave risk of losing these rights.

A patent is often a company's most important asset. Thus, when a company is contracting with the federal government, it must proceed with caution to avoid the loss of patent rights. If a contract is subject to a patent rights clause, the contractor must adhere to the Federal Acquisition Regulation to protect its patent rights. A contract is subject to the patent rights clause if the contract is for "experimental, developmental, or research work" or if the contract is for construction work or architect-engineer services and has, as a purpose, the performance of experimental, developmental, or research work or tests and involves the design of a government facility or the design of novel structures, machines, products, materials, processes, or equipment. 48 CFR 27.303(a)(1) and (2)(i)-(iii). The only major exceptions are contracts for construction work or architect-engineer services that involve standard types of construction. (48 CFR 27.303(3).)

Patents and Patent Rights Defined

A patent affords a legal monopoly on an invention for 20 years from the date of filing or earliest priority date. That means that no one else can make, use, sell or reverse-engineer a patented invention as long as the patent is valid in the country in which the patent is granted. However, a monopoly granted to an inventor by the patent laws is only as good as the inventor's ability to police the invention and to sue those who infringe.

For purposes of government contracts, an invention is defined as "any invention or discovery that is or may be patentable or otherwise protectable under [the patent laws] or any novel variety of plant



that is or may be protectable under the Plant Variety Protection Act." (48 CFR 27.301.)

Federal Money Used To Invent a Patentable Invention

If an invention is conceived or built in performance of a government contract, the government will have some rights to the patentable technology. The government's rights can range from a non-exclusive license to full ownership of the patent rights. The amount of patent rights depends on the amount of government funding involved and which agency provides the funding. Details about government contracts and patent rights are explained in the Bayh-Dole Act (35 U.S.C. § § 200 *et seq.*) and FAR.

Bayh-Dole Act and FAR

Prior to 1980, the U.S. government typically took title to inventions that arose during performance of a government contract. Over time, Congress realized that this was a disincentive to the development and commercialization of new technology because contractors could not commercialize and sell their inventions in the marketplace. This realization led to the Bayh-Dole Act, which gave non-profit organizations and small businesses the right to elect to retain title to inventions developed under federally funded contracts, grants or cooperative agreements; the government

then acquires a nonexclusive, irrevocable, paid-up license. In 1983, a presidential memorandum extended this allocation of rights to large businesses and for-profit organizations.

The Bayh-Dole Act and the presidential memorandum form the basis for FAR, which applies to most federal contracts and regulates contractors' rights to retain title to inventions made in the performance of work under a government contract. (There are statutory exceptions for contracts with the Department of Energy and NASA, which are required by statute to take title. However, these requirements can be and are often waived.)

Government Contract Clauses and FAR

Patent rights clauses in a prime contract are most likely contained in Section I of the contract. Typically, only citations to the relevant FAR and Defense Federal Acquisition Regulations Supplement clauses are in the contract. It is important for the contractor to review the referenced citations and definitions of terms used. Prime contracts and subcontracts may also incorporate by reference to relevant FAR and DFARS clauses by specific clause number.

Patent clauses affect the patent rights of all prime contractors and subcontractors under a government contract. Again, FAR clauses are "flowed down" to all subcontractors, regardless of tier. The flow down allocates rights and obligations between the subcontractor and the government, not the subcontractor and the prime.

Patent Rights in Government Contracts

The government obtains certain "use rights" in inventions made by the contractor during the performance of work under the contract. These rights depend on the nature and timing of the contractor's disclosure of the invention.

In order to obtain patent rights, the contractor must first *disclose* a subject invention to the contracting agency, then *elect* to obtain title to the subject invention



by notifying the agency in writing and, finally, must *file* an initial patent application on the subject invention. The disclosure, election, and filing all have time limits, which are discussed in detail below.

According to 48 CFR 27.301 a “subject invention” is “any **invention** of the Contractor **conceived or first actually reduced to practice** in the performance of **work under a Government contract.**” Achieving a subject invention initiates disclosure and election responsibilities for contractors.

The disclosure to the appropriate contracting officer must be in writing and must be sufficiently complete in technical detail to clearly convey understanding to the extent known at the time of the disclosure. The nature, purpose, operation and the physical, chemical, biological or electrical characteristics of the invention must be disclosed and described. The disclosure must also identify the applicable contract and the inventors.

Under any “subject invention,” the government obtains at least a nonexclusive, nontransferable, irrevocable, global, paid-up, perpetual license to practice an invention for government purposes while the contractor owns the patent. This license may be broadened in a specific contract to provide the government with additional rights, and may also be revoked or modified by the government to achieve expeditious practical application.

48 CFR 27.302(b)(1)-(4) describe narrow exceptions to a contractor’s right

to elect to retain title. A few of these exceptions include but are not limited to foreign companies, national security, and contracts for government-owned R&D or production facilities.

Electing to Obtain Rights for Small Businesses and Non-Profits

For small businesses firms and non-profits, 48 CFR 52.227-11 (short form) applies. This FAR does not apply to contracts with NASA, DOE, and DOD. NASA and DOE contract clauses provide for ownership rights as opposed to use rights. DOD patent clauses are 48 CFR 252.227-7038.

Disclose

The contractor must disclose, in writing, the “subject invention” to a contracting officer **within two months** after the inventor discloses the invention to contractor personnel responsible for patent matter.

Elect

After the contractor discloses the subject invention, the contractor may elect to obtain title to the invention. To elect title, the contractor must notify the federal agency **within two years** of disclosure.

File

The contractor must then file its initial patent application on an elected invention **within one year after election** or, earlier if an earlier date is necessary because of a possible statutory deadline, such as a publication date, sale, or public use.

Reporting Requirements

The contractor is required to submit, on request, periodic reports on the utilization of a subject invention or on efforts at obtaining such utilization that are being made by contractor or its licensees or assignees. See 48 CFR 52.227-11(h). These reports will be requested no more than once a year.

Electing to Obtain Rights for Large Businesses

For large businesses 48 CFR 52.227-12 (long form) applies. This is very similar to the requirements for small businesses and non-profits. However, some of the timing deadlines differ.

Disclose

The contractor must disclose a subject invention to the applicable agency **within two months** after the inventor discloses the invention to contractor personnel responsible for patent matter **or within six months** after the contractor became aware that a subject invention had been made, whichever occurs first.

Elect

The contractor must then elect in writing whether or not to retain title by notifying the agency **within eight months of disclosure**, as to those countries (including the U.S.) in which recipient will retain title.

File

The contractor then must file its initial patent application on the elected invention **within one year after election** or, if earlier, if an earlier date is necessary because of a statutory deadline, such as a prior publication, on sale or public use.

Reporting Requirements

In addition to the disclosure, election and filing requirements, large business contractors must file continuing reports. FAR 52.227-12 specifically requires large business contractors to file 1) interim reports every 12 months from the date of the contract listing subject inventions have been disclosed 48 CFR 52.227-12(7)(i); 2) a final report, within three months after completion of the contracted work, listing all subject inventions or stating that there were no such inventions, and listing all subcontracts at any tier containing a patent rights clause or stating that there were not such subcontracts, *see* 48 CFR 52.227-12(7)(ii); and 3) periodic reports on the utilization of a subject invention or on efforts at obtaining such

utilization that are being made by the contractor or its licensees or assignees. See 48 CFR 52.227-12(h).

Again, the disclosure, election and filing requirements give a contractor patent rights to its subject inventions. The contractor may exploit all patent rights as it sees fit, subject to the government use license. The contractor may also authorize or license third parties to use the patent.

What Happens if a Contractor ...

... Does Not Disclose

If the contractor fails to disclose the subject invention and if the government acts within 60 days after learning of the contractor's failure to disclose, the contractor loses all rights in the subject invention and receives no license. Thus, the contractor must disclose ALL subject inventions. When in doubt whether a potential invention is patentable, disclose it.

... Does Not Elect

If a contractor elects not to retain title, the contractor shall convey to the federal agency, upon written request, title to any subject invention. If a contractor fails to elect the subject invention within the deadline, the government may request title within 60 days after learning of the contractor's failure to elect within the specified time. The contractor will

still retain a non-exclusive royalty-free license under the patent.

... Does Not File

The government may obtain title if the contractor fails to file its initial patent application (can be a provisional application) in the U.S. within one year after its election or fails to file for a utility application or foreign patents within 10 months of an initial U.S. provisional application. The government may also obtain title if the contractor decides not to continue the prosecution of any application or to pay the maintenance fees or defend a patent on a subject invention.

March-in Rights (48 CFR 27.302(f))

When the contractor acquires title, the government can require the contractor to license, or if the contractor refuses, the agency has the right to grant other entities licenses if the contractor fails to take adequate steps for practical application. This right to grant licenses to others may include a competitor of the contractor.

Contractor Strategies

The FAR clause allocates patent rights between the government and the contractor. The contractor must have an appropriate employment agreement in place that states that any invention invented by an employee in the course of employment is owned by

the contractor and not by the inventor/employee. A contractor should require that its employees disclose promptly in writing each subject invention in order for the contractor to comply with disclosure provisions and to execute all necessary paperwork required by FAR.

It is important to have a procedure in place for disclosing subject inventions to the government agency. Contractors can use standardized forms DD Form 882 Report of Inventions and Subcontracts for DOD contracts or a form patterned after Form 882. The contractor must have a process for regular reporting on subject inventions required by the FAR patent rights clauses. Establishing a method for deciding whether to elect to file patents on any subject inventions or whether to keep the invention a trade secret is also important. This decision requires an analysis of potential commercial marketplace, the ease of reverse engineering, and the contractor's willingness and ability to police and enforce patent rights.

Conclusion

The FARs can be complicated and nuanced. Because of this, it is recommended that a general practitioner consult a patent attorney to guide them through the patent-related FARs. ■

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How Much Is My IP Worth? *continued from page 4*

media, and may include cease and desist actions or potential infringement claims. Most licensing agreements provide that the owner of the intellectual property bears this burden, but many licensees first become aware of the potential infringer because of competition among similar brands or products in the marketplace.

Finally, but perhaps most importantly, consider renewal provisions, perhaps with re-evaluation of the value of the IP or of the license every couple of years based upon the market. This protects the licensor, the licensee, and probably the attorney who drafted the license agreement.

Nothing is worse than having a fixed annual payment of \$10,000 based on sales projections and suddenly the next "Lego" rakes in millions of dollars. This also avoids potential lawsuits by the licensor for ill-advised legal advice for "undervaluation" and for not having reasonably projected sales—or the potential risk.

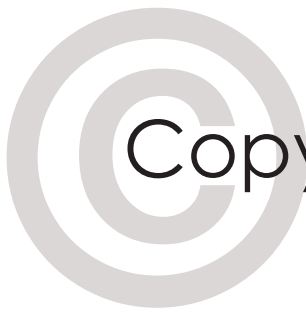
By first determining the market value of intellectual property and then constructing a detailed licensing agreement, the intellectual property owner can gain all of the economic benefits and good will associated with her or his intellectual property.

Endnotes

¹ See *Licensing Royalty Rates*, Gregory J. Battersby and Charles W. Grimes (Aspen Publishers, 2009).

² *Id.* at 4. ■

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Copyright in e-Publishing Contracts

By Ian Bezpalko

Aspiring authors who previously faced a wall filled with rejection letters can now upload their text to a book publishing service and receive a bound volume, several copies to distribute to friends and family, and other services. The cost is low, sometimes free, and the arrangement seems to take all the complications out of getting a book published and on the shelves.

Despite that apparent simplicity, book publishing contracts vary widely and require careful reading. For example, the MeeGenius Inc. Online Publishing Agreement contains the following:

Exclusive Digital eBook Rights.

Grant. If the manuscript is accepted, without requiring any further agreement or action by you and any co-creator(s), MeeGenius will receive, and you and any co-creator(s) agree to grant, and hereby grant, to MeeGenius in respect of such accepted manuscript, exclusive worldwide, perpetual rights, with the right to sublicense, to publish and otherwise “use” (as defined further below) the Work in digital or digitized format as an eBook, in all languages, in any format or medium, in all cases, whether such formats or media are now existing or hereafter devised (“eBook Rights”). Neither you nor any co-creator(s) may use the Work in relation to any such digital or digitized media or format on your own or through or with any third party except as MeeGenius may expressly grant its approval in writing of such use or exploitation. The right to “use” means and includes the right to adapt, display, distribute, publish, sell, edit, modify, perform, promote, reproduce, transmit, and, subject to



the “Other Rights” (as defined below), create derivative works of the Work.¹

Note that the above clause requires the author to surrender copyright in the manuscript. The termination clause (not reproduced here) is limited and further specifies that copyright will not be returned. In some instances a contract may allow the author to recover copyright in the book, but in any event such an agreement offers a poor arrangement and carries substantial risks.

Although by statute copyright protection “subsists ... in original works of authorship fixed in any tangible medium of expression” (17 U.S.C. § 102(a)), it does not necessarily follow that the author has complete, absolute control of his work. See, e.g., *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1, 19, 28 S.Ct. 319, 323, 52 L.Ed. 655 (1908), and *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 432, 104 S.Ct. 774, 784

(1984). Section 106 grants the author five rights: 1) the right to reproduce; 2) the right to prepare derivative works; 3) the right to sell, or otherwise distribute, copies; 4) the right to perform publicly; and 5) the right to display publicly. And while fair use, under Section 107, allows another entity or individual to make use of the work, an author’s rights may be transferred entirely to the employer under a “work for hire” contract. Section 101(1) states that this can occur in one of two ways: when the author is an employee, or when the author is specially commissioned to create a work that fits within one of nine enumerated types.

In sum, transfer of copyright to the publisher means that the publisher can alter, adapt, license, sell, perform, or

display the work without any consultation, credit, or compensation to the author. Authors, and attorneys who review such contracts, should think carefully before relinquishing copyright. Without due diligence and a complete understanding of the terms, the end result may be loss of control for the author while the work and the author’s pride and joy may well become something of ill repute. Then again, the work might be wildly successful, but the royalty clause only allows 8 percent. Would that be of the retail price, the wholesale price, or the net price after potential discounts? Read every clause.

Endnotes

¹ <http://www.meegeenius.com/challenge/publishing-agreement>, (last visited Oct. 22, 2013.) ■

Ian Bezpalko is a member of the IP Section and has been in private practice for seven years.

Spatial Data Licenses

“What do you mean it’s not complete, accurate, error free, up to date, is subject to change and you won’t give me any warranties, but want me to indemnify you?”

By Peter N. Ives

Data in the form of electronic information is more than ever a significant part of our lives. Each day brings new articles in newspapers, online, and on television about the capture, retention, uses of, and marketplace for data. Documenting rights between parties for the use of data likewise now takes many forms, some of which are familiar and some of which are not. A Westlaw subscription is a familiar type of data agreement,¹ where for a fee paid, the licensee gains access to an electronic database containing reported cases, statutes, and other types of information. This article addresses data sets and agreements pertaining to spatial context data, including some of the standard provisions and challenges those agreements present.

When we think of geographic information we think of maps, which now provide much more information than where roads are located. Maps capture myriad types of data, including the location of roads, endangered species, habitat, demographics, incidence of disease, parks, etc. The societal impact of these new electronic tools promises to be revolutionary regarding how we plan into the future. Costs involved in licensing such data sets can run to annual fees of hundreds of thousands, if not millions, of dollars (think global mapping or parcel data for the entire United States), and can have applications that transcend internationally boundaries (mapping international watersheds or offshore waterways). Virtually all entities that capture and make available such information to others, do so subject to fees, limitations, restrictions, disclaimers and, not infrequently, indemnities, set forth in written data use agreements or licenses, many of which purport to be non-negotiable.

Examples of standard provisions contained in such agreements are the following terms from a municipal spatial data license:

Grant of License

1. The City hereby grants Licensee a personal, non-exclusive, non-assignable, and non-transferrable license for the term of this Agreement to use the Data for the sole purpose of _____.



While such agreements from governmental agencies generally run two to five pages, they often come in pdf format and are not modifiable, representing a one-size-fits-all approach.

Identification of Data

2. The Data shall consist of _____.

Retained Ownership

3. This Agreement does not constitute a sale or transfer of any title or ownership interest in the Data to Licensee. Ownership of the Data and of any authorized copies of the Data made by Licensee shall remain vested in the City, subject to the rights herein granted to Licensee. The City reserves all rights not expressly granted to Licensee by this Agreement.

Limitations on Use

4. Except for hardcopy map production by Licensee, no part of the Data may be copied, reproduced or transmitted in any form or by any means whatsoever. Licensee shall not license, sub-license, assign, lease, release, publish, transfer, sell, permit access to, distribute, allow interactive rights to, or otherwise make available the Data or any part thereof in any form or media without the express written permission of the City.

No Warranties

5. Licensee understands and acknowledges that the Data was developed for the City’s sole use, and that any use thereof by Licensee or any other person is at the user’s sole risk. All GIS data is subject to change, and the accuracy and completeness of the Data cannot be and is not warranted or guaranteed by the City.

The data is distributed “as is.” The city makes no warranties or guarantees, express or implied, as to the completeness, accuracy, or correctness of the data, nor shall the city incur any liability from any incorrect, incomplete, or misleading information contained therein. The city makes no warranties, either express or implied, of value, design, condition, title, merchantability, or fitness for a particular purpose. The city shall not be liable for any direct, indirect, incidental, consequential, punitive, or special damages, whether foreseeable or unforeseeable, arising out of the authorized or unauthorized use of the data or the inability to use the data or out of any breach of warranty whatsoever.

Indemnification

6. To the extent permitted by law, Licensee shall indemnify and hold harmless the City, its elected and appointed officials, employees, and agents, from and against any claim, loss, damage, cost, injury or liability, including reasonable attorneys fees, arising out of the performance or non-performance of this Agreement or from the procuring, compiling,

collecting, interpreting, producing, using, or communicating the Data or any part thereof.

While such agreements from governmental agencies generally run two to five pages, they often come in pdf format and are not modifiable, representing a one-size-fits-all approach by the public entity to licensing. The challenge in using such forms, if you represent the user, is that those predetermined limitations (*see supra* ¶ 4) may conflict with the purposes for which your client needs the data and the uses to which your client puts the data (*see supra* ¶ 1). Overcoming these conflicts is essential to crafting an agreement that is internally consistent and protective of your client's interests. Creativity in the contracting process may be required. Describing correctly and fully the uses and/or purposes to which the data can be put (*see id.*) is vital and necessitates working closely with your clients' technical staff.

Similarly, the limitations on use may simply be too restrictive for a client's effective use of the data sets, necessitating modifications, which due to the un-modifiable form of the Data License Agreement (whether due to the pdf format or the incapacity of relevant public entity staff to secure such modifications) are challenging to put in place. Use of an addendum to the agreement functionally modifying the limitations is often an expedient approach. Alternatively, where the statement of the limitations leaves room for interpretation, use of correspondence setting forth the party's interpretation of unclear language to clarify permission may also be used, but comes with obvious cautions.

Spatial data, how it is gathered, stored, updated, and reviewed for quality control is primarily unregulated, except in certain limited circumstances. Because all such data sets are subject to the old computing function known as GIGO (Garbage In, Garbage Out), not to mention an ever changing world, it is highly unusual to gain rights to any data sets that do not come with disclaimers of warranties as to accuracy, completeness, being error free, being current, and, of course, any implied warranties of merchantability or fitness for a particular use or purpose (*see supra* ¶ 5).² Concurrently, data license agreements frequently require the licensee to acknowledge liability for any and all uses of the data (*id.*), and many go further to require

an indemnification of the licensor for any use or misuse by the licensee, including any third party claims based on licensee's use of the data (*see supra* ¶ 6).

In addition to the challenges of obtaining a license that is acceptable in the first instance, the licensee's own uses of the data must also be considered and properly managed for risk. Because the data often comes without warranty and with affirmative disclaimer (*see supra* ¶ 5), a licensee's use of the data, for instance, being incorporated into maps or other geographic location applications, which is often made available for consideration to third parties for some constructive use, should only be provided subject to disclaimers and limitations and, where appropriate, even indemnities.³ Your client does not want to be caught between the unwarranted receipt of information from a data provider and the warranted distribution by your client to third parties. The nature and character of the data sets and the standards imposed by licensing entities makes for engaging negotiations and creative problem solving for attorneys for those entities.

Data set licenses and agreements often come with significant costs. These costs are frequently imposed, even by public agencies providing information that has been collected using the public's funds. In one bright spot for licensees of such records from public entities, a recent California Supreme Court case addressing a challenge to payment of the license fee being charged by a public entity for one of its data sets, the Court held that a parcel map database did not fall within the "software" exception to the applicable Public Records Act and, therefore, no license fee for a request for production of the data was permitted; that is, the only cost was going to be the cost of copying the data and making it available. *Sierra Club v. Superior Court, County of Orange, Real Party in Interest*, 302 P.3d 1026 (Cal. 2013).

The words "*duis autem cavete*" or "user beware" ring true in the world of data licenses. Make sure you know what you are getting, know what uses you can make of it, know whether those uses suit your purposes, get what you need, and that you give in turn, in terms of warranties and disclaimers to third parties, no more than you get. Following these precautions may assist with navigating the fine print of spatial data licenses.

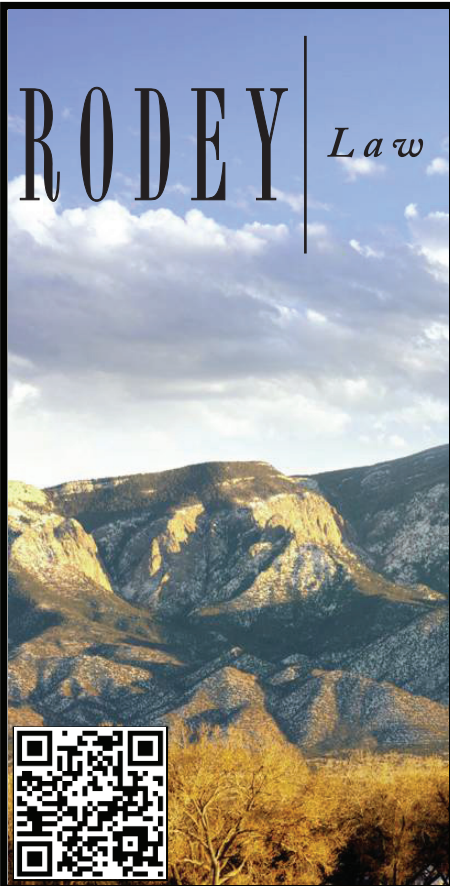
Endnotes

¹ If you take the opportunity to read through your Westlaw Subscriber Agreement, you will note that its data is "Provided 'As Is,' Without warranty of any kind, express or implied, including, but not limited to, warranties of performance, merchantability, fitness for a particular purpose, accuracy, omissions, completeness, currentness and delays."

² Disclaimers are used not just for data sets, but for almost all websites. The State Bar of New Mexico website, for instance, makes the following disclaimer: "Disclaimer of Liability, Terms & Conditions: The State Bar of New Mexico offers the information on this site as a service to our members and other Internet users. The information on this site is about legal issues, but IT IS NOT LEGAL ADVICE. Due to the rapidly changing nature of law and the State Bar's use of information provided by outside sources, no warranty or guarantee is made concerning the accuracy or reliability of the content of this site, or other sites for which we offer links for your use. Provision of a link does not constitute endorsement of that site.... This site and the information, software and any other material available through this site is provided on an 'as is' and 'as available' basis, without any warranties of any kind, either express or implied. The State Bar of New Mexico does not warrant that service to this site will be uninterrupted or error free, or that any information or material available through this site is free of viruses or any other harmful component."

³ The State Bar site further provides, by way of example: "You agree to defend, indemnify and hold harmless, the State Bar, its Foundation, Commissions, Divisions, Sections and Committees, and their officers, directors, employees, agents, successors and assigns from any and all liabilities, costs and expenses, including attorney fees, related to any violation of these terms and conditions on your part." ■

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