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Protecting Yourself When a Deal Goes SOUTH

by Meaghan Hemmings Kent

In these economically uncertain times, you may be more concerned than usual that you need to protect yourself and your business. Certainly, it seems that more companies are experiencing economic hardship, defaulting on license or contractual obligations, or considering or even filing for bankruptcy. So what do you do to protect yourself and try to ensure that you receive what you are owed?

First and foremost, as you may have detected in my articles as a running theme, any contract you enter should be in writing. Many disputes and issues arise when verbal agreements are breached. In addition, many types of agreements are required to be in writing. Remember that assignments of copyright must be in writing, exclusive licenses must be in writing and work for hire agreements must be in writing. Nonexclusive licenses and some contracts can be created verbally, but if the deal goes south, you will have a harder time protecting yourself if you have to prove what someone agreed to and it becomes your word against theirs. A written agreement will go a long way in demonstrating what was agreed upon and helping you collect what is due.

Next, you need to be vigilant in collecting and enforcing your rights. From a practical point of view, the squeaky wheel gets the grease and the sooner you push to collect, the more likely you will actually collect. From a legal perspective, if you sleep on your rights for an excessive amount of time, it becomes more difficult to enforce them and/or collect damages because of certain legal doctrines, including laches, estoppel and implied license.

If a licensee begins defaulting on their obligations by failing to pay you your fee or required royalties, or fails to provide required royalty statements, this will likely constitute a breach of your agreement. Certainly, you should not allow a breach to go unnoticed; you should follow up and send written notice that they have failed to meet an obligation. Your contract may lay out the specific format (often written, mailed to certain individuals,

within a certain timeframe) that you must follow. In addition, many agreements allow for a period in which they can correct or remedy this default. Your agreement may provide a particular procedure for notification, which you should follow precisely to ensure that if they then fail to remedy the breach, they cannot point to some minor technical deficiency in your notice as an excuse. If they do not remedy or correct the situation, you may then need to send a separate notice of breach. In that notice of breach, you should let them know that you are terminating their license for failure to pay or that you are rescinding the contract for failure to satisfy a term and they are breaching the agreement, and include any other language that may be required by the agreement itself. You will then have met your obligations for formally terminating, and if they continue to use your work, you will more easily be able to enforce the unlawful use of your work without payment.

In enforcing your rights, in addition to collecting money damages for the breach, your contract may allow for interest or other remedies, like an ability to audit their records should you choose, or resolution through a special arbitration. Check the terms of the contract for these types of terms.

You might also find yourself in a situation where the commissioning entity wants to assign your work to a third party. You may not want that party to use your work, but exclusive licenses and assignments are typically transferable, so long as the obligations have been met to you. A non-exclusive license, however, is not transferable without your consent, and you may be able to use that as a bargaining chip before you consent to any transfer. Be aware, though, that a non-exclusive licensee might be acquired by another company without your consent if it is acquired as part of the assets of the company in an acquisition or merger, rather than a transfer or sale. This may occur in a situation where all the assets of a company are absorbed into or acquired by another company. If that occurs, you will

need to enforce any prior unmet obligations against that new entity, which makes it even more important that you have all your ducks in a row, including a written contract and documents proving that you notified them of the breach and/or termination.

If someone who commissioned you to create a work or licensed a work from you goes into bankruptcy, you may be wondering how you can ensure that you get paid for your work. Unless you were an employee, it is likely that you created the work and provided some type of license to the commissioning party. If they are on the verge of bankruptcy, they may try to assume the license without paying, which leaves you as a low-priority unsecured creditor in bankruptcy for an unpaid amount. If you do have the contract in writing, that will make it easier to enforce. To the extent it is feasible under the contract, you probably will want to try to collect flat payment prior to any possible bankruptcy. If you are unable to do that, you should do what you can to at least go through the steps above to ensure that you have complied with all of the notice and termination proceedings and can cleanly show a breach and entitlement to payment. Bankruptcy is a complicated area of law and the convergence of intellectual property and bankruptcy is even more convoluted. If you do find yourself trying to collect in that situation, it is best to contact a specialist who can give you advice specific to your situation.

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