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# Limited Duties of Exclusive Licensees


About Jay Landrum

Jay Landrum is a member of Silicon Valley Law Group's Corporate & Securities and Intellectual Property Groups. As former General Counsel for a NYSE company and as a former CEO of a health products company, he has extensive experience representing companies in all stages of operation, including organizational matters, licensing, strategic relationship agreements, fund-raising, and merger transactions.

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So, you've licensed a valuable idea or asset to someone else on an exclusive basis, and since that exclusivity means you are no longer involved, you are now depending on your licensee to make you both a lot of money. And because you are relying so greatly on them, they also have serious obligations to protect you also. Right?

Maybe not. The California Supreme Court recently concluded, in City of Hope Nat'l Med. Ctr. v. Genentech, that a fiduciary relationship is not necessarily created when a party, in return for royalties, entrusts a secret idea to another to develop, patent, and commercially develop.

While certain circumstances can create such a relationship, it might not do so. The Court stated that even where (1) one party entrusts its affairs, interests or property to another; (2) there is a grant of broad discretion to another, generally because of a disparity in expertise or knowledge; (3) the two parties have an "asymmetrical access to information," meaning one party has little ability to monitor the other and must rely on the truth of the other party's representations; and (4) one party is vulnerable and dependent upon the other, no fiduciary duty necessarily attaches. There must be an affirmative assumption of obligations of a fiduciary, such as knowingly accepting the duty to act for the benefit of another and/or subordinate its interests to another.

Bottom line... even where you exclusively license 100% of your idea, technology, artwork, writings, or other intellectual property to a third party licensee, you cannot expect the licensee to look out for your interests at the level of a fiduciary.

Breach of the license agreement itself may be all you have to go forward on if things turn bad, which would eliminate punitive damages (as it did in this case).

Better to be safe than sorry -- so, let's spell out the expectations you have of your licensee, and draft an agreement that ensures they understand and honor their obligations.

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