

Licensing Intellectual Property in the Information Age

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Licensing Intellectual Property in the Information Age

SECOND EDITION

Kenneth L. Port

DIRECTOR OF INTELLECTUAL PROPERTY LAW STUDIES
WILLIAM MITCHELL COLLEGE OF LAW
ST. PAUL, MINNESOTA

Jay Dratler, Jr.

GOODYEAR PROFESSOR OF INTELLECTUAL PROPERTY
UNIVERSITY OF AKRON SCHOOL OF LAW
AKRON, OHIO

Faye M. Hammersley, Esq.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
WASHINGTON, D.C.

Terence P. McElwee

INTELLECTUAL PROPERTY COUNSEL
UNIVERSITY OF ILLINOIS AT CHICAGO
CHICAGO, ILLINOIS

Charles R. McManis

WASHINGTON UNIVERSITY SCHOOL OF LAW
ST. LOUIS, MISSOURI

Barbara A. Wrigley

OPPENHEIMER, WOLFF AND DONNELLY, LLP
MINNEAPOLIS, MINNESOTA

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To Ellie, Emi and Paula
K.L.P.

To my wife, Aileen, whose steadfast love, patience, and
encouragement helped inspire me to make a contribution
to this book and to find the time to write it
J.D.

To Tom and Mary
F.M.H.

To Beth
T.P.M.

To my mother, Ruth
C.R.M.

To my parents, Bob and Frances, to whom I owe everything
B.A.W.

Summary of Contents

| | |
|--|------|
| Preface to the Second Edition | xvii |
| Preface to the First Edition | xix |
| Acknowledgments | xxi |
| Chapter 1 What is Licensing? | 3 |
| Chapter 2 Overview of Intellectual Property Law | 23 |
| Chapter 3 Intellectual Property Audits | 97 |
| Chapter 4 Negotiating the License | 125 |
| Chapter 5 Valuation of Intellectual Property | 181 |
| Chapter 6 Copyright: Multimedia and Entertainment Licensing | 241 |
| Chapter 7 Key Provisions in License Agreements and Special Types of License Agreements | 287 |
| Chapter 8 Contract Law Issues in Intellectual Property Licensing | 333 |
| Chapter 9 Antitrust and Misuse Issues in Licensing | 425 |
| Chapter 10 License Litigation and Trends in Judicial Enforcement | 567 |
| Chapter 11 International Aspects of Licensing | 631 |
| Chapter 12 Tax Implications in Licensing Intellectual Property | 649 |
| Chapter 13 Bankruptcy and Security Interests in Licensing | 719 |
| Chapter 14 Biotechnology Licensing | 773 |
| Table of Cases | 829 |
| Index | 841 |

Contents

| | |
|---|-----------|
| Preface to the Second Edition | xvii |
| Preface to the First Edition | xix |
| Acknowledgments | xxi |
| Chapter 1 What is Licensing? | 3 |
| I. Introduction: The Importance of Licensing | 3 |
| II. Intellectual Property: An Odd Form of “Property” Indeed | 5 |
| III. Transactions in Intellectual Property: Sales, Licenses, and Mortgages | 8 |
| IV. The Dilemma of Licensing | 10 |
| V. Peeling the Onion of Licensing: A License’s “Scope” | 12 |
| VI. Strategic and Business Considerations | 14 |
| Notes & Questions | 18 |
| Chapter 2 Overview of Intellectual Property Law | 23 |
| I. Introduction | 23 |
| II. Comparison of Patents, Trademarks, Copyrights, and Trade Secrets | 23 |
| A. Derivation of Rights | 23 |
| B. Protectible Subject Matter | 24 |
| C. Criteria for Protection | 24 |
| D. Creation of Rights | 25 |
| E. Duration of Rights | 25 |
| F. Test for Infringement | 26 |
| III. Patents | 27 |
| Port, <i>Foreword: Symposium on Intellectual Property Law</i> | 27 |
| <i>Graham v. John Deere</i> | 29 |
| <i>Diamond v. Chakrabarty</i> | 34 |
| <i>State Street Bank & Trust Co. v. Signature Financial Group, Inc.</i> | 38 |
| Notes on Patents | 44 |
| IV. Copyrights | 49 |
| Port, <i>Foreword: Symposium on Intellectual Property Law</i> | 49 |
| <i>Baker v. Selden</i> | 52 |
| <i>Feist Publications, Inc. v. Rural Telephone Service Co., Inc.</i> | 55 |
| Notes on Copyrights | 66 |
| <i>Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.</i> | 67 |
| Notes and Questions on <i>Grokster</i> | 76 |
| Notes on the Digital Millennium Copyright Act | 77 |
| Other Notes & Questions | 78 |

| | | |
|------|---|-----|
| V. | Trademarks | 80 |
| | Port, <i>Foreword: Symposium on Intellectual Property Law</i> | 80 |
| | Trade-Mark Cases: <i>United States v. Steffens</i> ; <i>United States v. Wittemann</i> ; <i>United States v. Johnson</i> | 82 |
| | <i>Abercrombie & Fitch Company v. Hunting World, Incorporated</i> | 84 |
| | <i>Qualitex Co. v. Jacobson Products Co., Inc.</i> | 86 |
| | <i>Wal-Mart Stores, Inc., v. Samara Brothers, Inc.</i> | 89 |
| | Notes on Trademarks | 93 |
| | Chapter 3 Intellectual Property Audits | 97 |
| I. | Importance of an Audit | 97 |
| II. | Mapping Intellectual Properties | 98 |
| | Smith and Parr, INTELLECTUAL PROPERTY—LICENSING AND JOINT VENTURE PROFIT STRATEGIES | 99 |
| | Sonsini, Barclay, and Berger, <i>Maneuvering Through M & A</i> | 107 |
| III. | The Role of Audits in Corporate Strategy | 108 |
| | Simensky and Bryer, THE NEW ROLE OF INTELLECTUAL PROPERTY IN COMMERCIAL TRANSACTIONS | 108 |
| | Whale, <i>Internal IP Audits Reveal Overlooked Possibilities: Audits Can Help Corporations Identify Which Inventions Would Be Most Profitable to Patent</i> | 110 |
| | Spelman and Moss, <i>The Intellectual Property Inventory: Why Do It?</i> | 113 |
| IV. | Results of the Audit | 117 |
| | Hayes, <i>Acquiring and Protecting Technology: The Intellectual Property Audit</i> | 117 |
| | Notes & Questions | 119 |
| | Intellectual Property Due Diligence Checklist | 122 |
| | Chapter 4 Negotiating the License | 125 |
| I. | Introduction | 125 |
| II. | The Parties | 126 |
| | A. Licensors | 126 |
| | B. Licensees | 127 |
| III. | The Structure and Elements of a Deal | 127 |
| | A. A Technology or Trademark Attracts Potential Licensees | 127 |
| | B. The Non-Disclosure Agreement | 128 |
| | <i>Ole K. Nilssen v. Motorola, Inc.</i> | 130 |
| | <i>Bell Helicopter Textron, Inc. v. Tridair Helicopters, Inc.</i> | 141 |
| | C. Interests and Bargaining Positions | 143 |
| | Fisher and Ury, GETTING TO YES | 144 |
| | Respass, <i>Strategies for Exploiting Property Rights in Technology</i> | 147 |
| | D. Due Diligence | 149 |
| | E. An Agreement Emerges As Key Terms Are Negotiated | 150 |
| | Contractor, LICENSING IN INTERNATIONAL STRATEGY: A GUIDE FOR PLANNING AND NEGOTIATIONS | 150 |
| | F. The Most Basic Terms of a License: The “Scope” of the License | 153 |
| | G. The Final Agreement Is Drafted and Signed | 161 |
| | H. Transfer of Technology and Technical Assistance | 161 |
| | I. Monitoring | 162 |
| IV. | Licensing in More Complex Arrangements | 162 |

| | |
|---|------------|
| Killingsworth, <i>Form, Function, and Fairness: Structuring the Technology Joint Venture</i> | 162 |
| Contractor, LICENSING IN INTERNATIONAL STRATEGY: A GUIDE FOR PLANNING AND NEGOTIATIONS | 165 |
| Parr and Smith, <i>Quantitative Methods of Valuing Intellectual Property</i> | 166 |
| V. Government License Rights Regulations and Proprietary Technical Data and Software | 168 |
| A. Licensing Proprietary Non-Commercial Software to the USG | 168 |
| B. Licensing Commercial Software to the Government | 169 |
| C. Providing Technical Data to the Government with Limited Rights | 171 |
| Notes & Questions | 171 |
| Chapter 5 Valuation of Intellectual Property | 181 |
| I. Introduction | 181 |
| Valuation of Assets: The Basics | 181 |
| II. Valuation Methodologies | 189 |
| Hagelin, <i>A New Method To Value Intellectual Property</i> | 190 |
| Megantz, HOW TO LICENSE TECHNOLOGY | 203 |
| III. Valuing Early Stage Technologies | 207 |
| A. University Research as a Source of Licensable Technology | 207 |
| Perchorowicz, <i>Appraising Inventions: The Key to Technology Management</i> | 207 |
| IV. Valuation of Trademarks | 213 |
| Parr and Smith, <i>Quantitative Methods of Valuing Intellectual Property</i> | 213 |
| V. Judicial Valuation | 214 |
| A. Lost Profits | 215 |
| <i>Panduit Corp. v. Stahl Bros. Fibre Works</i> | 215 |
| B. Reasonable Royalty | 215 |
| <i>Georgia-Pacific Corp. v. United States Plywood Corp.</i> | 215 |
| <i>Georgia-Pacific Corporation v. U.S. Plywood-Champion Papers, Inc.</i> | 221 |
| <i>Hughes Aircraft Company v. The United States</i> | 222 |
| <i>Minco, Inc. v. Combustion Engineering, Inc.</i> | 226 |
| Notes & Questions | 228 |
| Appendix A | 233 |
| Appendix B | 236 |
| Chapter 6 Copyright: Multimedia and Entertainment Licensing | 241 |
| I. Introduction | 241 |
| Multimedia Licensing: The Basics | 241 |
| Kennedy, <i>Evolution of the Multimedia Species Developers Eager for Easy Access to Other People's Product May Interact Differently Once They Become Owners</i> | 252 |
| II. Problems in Licensing Multimedia | 255 |
| Yates, <i>Negotiating Multimedia Agreements: Issues Associated With Acquiring Multiple Rights From Multiple Parties</i> | 255 |
| Notes & Questions | 262 |
| III. Licensing "Publicity" in Multimedia Settings | 267 |
| Weingart, <i>Licensing Celebrity Rights of Publicity in Multimedia Products</i> | 267 |
| IV. Title Searches and Licenses | 269 |

| | |
|--|------------|
| Smallson, <i>Searching for the Right Stuff</i> | 269 |
| Notes and Questions | 274 |
| Appendix C: Sources for Licensing Releases | 282 |
| Chapter 7 Key Provisions in License Agreements and Special Types of License Agreements | 287 |
| I. Introduction | 287 |
| II. Key Provisions | 287 |
| A. Heading | 288 |
| B. Recitals | 288 |
| C. Definitions | 289 |
| D. Grant Clause | 292 |
| E. Forms of Consideration | 294 |
| F. Delivery of Tangible Property | 296 |
| G. Improvements | 296 |
| H. Most Favored Licensee | 297 |
| I. Right to Inspect and Audit Books and Records | 297 |
| J. Representations and Warranties | 299 |
| K. Confidentiality | 299 |
| L. Indemnification | 301 |
| M. Quality Control (Trademark) | 302 |
| N. Exploitation by Licensee | 303 |
| O. Third Party Infringement, Standing to Sue, and Control of Litigation | 304 |
| P. Term, Termination and Post-Termination Rights and Obligations | 305 |
| Q. “Not So Boilerplate” Provisions | 307 |
| Dettmann and Stanchfield, <i>Will Intellectual Property Rights Survive a Merger?</i> | 309 |
| R. General Provisions | 312 |
| III. Strategic Alliances and Special Considerations | 313 |
| Moore, <i>Joint Ownership of Intellectual Property Issues and Approaches in Strategic Alliances</i> | 314 |
| Tasman, <i>Addressing Intellectual Property Ownership When Drafting Joint Development Agreements</i> | 326 |
| Notes and Questions | 329 |
| Chapter 8 Contract Law Issues in Intellectual Property Licensing | 333 |
| I. Introduction | 333 |
| II. Scope of Exclusive Licenses and Standing to Sue | 333 |
| <i>Western Electric Co., Inc. v. Pacent Reproducer Corp.</i> | 333 |
| License Agreement at Issue in <i>Western Electric Co., Inc. v. Pacent Reproducer Corp.</i> | 336 |
| Notes | 337 |
| III. Implied Licenses | 338 |
| <i>De Forest Radio Telephone & Telegraph Co. v. United States Swope, Implied License: An Emerging Threat to Contributory Infringement Protection</i> | 341 |
| Joslyn, <i>The Impact of the Patent Exhaustion and Implied License Doctrines on License Negotiations</i> | 347 |
| Bregenzer, “Have Made” Rights—A Trap for the Unwary | 349 |
| Notes | 352 |

| | | |
|---|--|-----|
| IV. | Shrink-Wrap and Click-Wrap Licenses | 355 |
| A. | The Validity of Shrink-Wrap and Click-Wrap Licenses | 356 |
| | <i>ProCD, Inc. v. Zeidenberg</i> | 356 |
| | <i>Hill v. Gateway 2000, Inc.</i> | 363 |
| | <i>Specht v. Netscape Communications Corp.</i> | 366 |
| | Notes and Questions | 375 |
| B. | Approaches to Making Online Licenses Enforceable | 376 |
| | Uniform Electronic Transactions Act | 376 |
| | Notes and Questions on UETA and Other Statutes | 380 |
| C. | License Agreement Prohibitions and Preemption | 387 |
| | <i>Bowers v. Baystate Technologies, Inc.</i> | 387 |
| | Notes and Questions | 395 |
| V. | Other Issues in Online Contracting | 397 |
| | Hood and Foster, <i>Online Contracting</i> | 397 |
| VI. | The Open Code Movement | 400 |
| | Horne, <i>Open Source Software Licensing: Using Copyright Law to Encourage Free Use</i> | 400 |
| | Wright, <i>Linux Users Risk Infringement</i> | 410 |
| | Moglen, <i>Enforcing the GNU GPL</i> | 419 |
| | Notes & Questions | 422 |
| Chapter 9 Antitrust and Misuse Issues in Licensing | | 425 |
| I. | Introduction | 425 |
| II. | A “Drinking from a Fire Hose” Introduction to Antitrust | 427 |
| III. | The Fundamentals of Modern Antitrust: <i>Per Se</i> Illegality and the Rule of Reason | 432 |
| | The Antitrust Laws | 432 |
| | <i>United States v. Socony-Vacuum Oil Co.</i> | 433 |
| | <i>Continental T.V., Inc. v. GTE Sylvania Inc.</i> | 442 |
| | Notes & Questions on <i>Per Se</i> Illegality and the Rule of Reason | 451 |
| IV. | The Evolution of Antitrust Law and Licensing | 453 |
| | <i>State Oil Co. v. Khan</i> | 453 |
| | Notes on <i>Khan</i> and the Evolution of Antitrust Law | 460 |
| | <i>United States v. Topco Associates, Inc.</i> | 461 |
| | Notes on <i>Topco</i> , Antitrust Arithmetic, and the Antitrust Rules Matrix | 470 |
| V. | Licensing Restrictions and Antitrust Guidelines | 473 |
| | Gotts and Fogt, <i>Clinton Administration Expresses More Than Intellectual Curiosity in Antitrust Issues Raised by Intellectual Property Licensing</i> | 473 |
| | Antitrust Guidelines of the Department of Justice and Federal Trade Commission; Antitrust Guidelines for the Licensing of Intellectual Property | 480 |
| | Notes and Questions on the 1995 Guidelines | 499 |
| VI. | Copyright and Other Misuse | 501 |
| | <i>Lasercomb America, Inc. v. Reynolds</i> | 502 |
| | Notes and Questions on Misuse | 510 |
| | Notes on Antitrust and Misuse Generally | 514 |
| VII. | Sherman Act § 2 and the Microsoft Litigation | 517 |
| | <i>United States v. Microsoft Corp.</i> | 518 |
| | The D.C. Circuit’s Decision in <i>Microsoft III</i> : More Questions than Answers | 554 |

| | |
|---|-----|
| Chapter 10 License Litigation and Trends in Judicial Enforcement | 567 |
| I. Introduction | 567 |
| II. Estoppel | 567 |
| A. Patent Licensee Estoppel | 567 |
| <i>Lear, Inc. v. Adkins</i> | 567 |
| B. Patent Assignor Estoppel | 572 |
| <i>Diamond Scientific Co. v. Ambico, Inc.</i> | 572 |
| C. Trademark Licensee Estoppel | 576 |
| <i>Seven-Up Bottling Co. v. The Seven-Up Co.</i> | 576 |
| <i>Deer Park Spring Water, Inc. v. Appalachian Mountain Spring Water Co.</i> | 578 |
| D. Copyright Licensee Estoppel | 579 |
| <i>Twin Books Corp. v. The Walt Disney Co.</i> | 579 |
| III. Patent Misuse and Hybrid Licenses | 580 |
| <i>Brulotte v. Thys Co.</i> | 580 |
| <i>Aronson v. Quick Point Pencil Co.</i> | 582 |
| <i>Scheiber v. Dolby Laboratories, Inc., and Dolby Laboratories Licensing Corp.</i> | 586 |
| Notes | 589 |
| IV. Enforcing License Agreements | 590 |
| A. Third Party Rights | 590 |
| <i>Rhône-Poulenc Agro, S.A. v. DeKalb Genetics Corp., v. Monsanto Co.</i> | 590 |
| <i>PPG Industries, Inc., v. Guardian Industries Corp.</i> | 594 |
| <i>Verson Corp. v. Verson International Group PLC</i> | 600 |
| Notes | 606 |
| B. Remedies | 607 |
| <i>Burlington Indus. v. Solutia, Inc.</i> | 607 |
| <i>Sun Microsystems, Inc. v. Microsoft Corp.</i> | 609 |
| Notes & Questions | 613 |
| C. Governing Law | 615 |
| <i>Texas Instruments, Inc., v. Tessera, Inc., and U.S. International Trade Commission</i> | 615 |
| Notes & Questions | 620 |
| D. Most Favored Licensee | 620 |
| <i>Studiengesellschaft Kohle, M.B.H., v. Hercules, Inc., Himont U.S.A., and Himont, Inc.</i> | 620 |
| E. Enforcing Arbitration Clauses | 625 |
| <i>Microchip Technology, Inc. v. U.S. Phillips Corp. and Phillips Electronics North America Corp.</i> | 625 |
| Notes | 629 |
| Chapter 11 International Aspects of Licensing | 631 |
| I. Introduction | 631 |
| <i>Peery, International Considerations in Licensing</i> | 631 |
| <i>Motta, Special Concerns When Drafting International Licensing Agreements</i> | 634 |
| <i>Ulin, Contract Concerns in International License Agreements</i> | 636 |
| Notes & Questions | 642 |
| Chapter 12 Tax Implications in Licensing Intellectual Property | 649 |
| I. Introduction | 649 |
| II. Substantial Rights | 649 |

| | | |
|-------|---|-----|
| A. | Field of Use Limitations | 650 |
| | <i>Fawick v. Commissioner of Internal Revenue</i> | 650 |
| | <i>Mros v. Commissioner of Internal Revenue</i> | 658 |
| B. | In the University Setting | 662 |
| | IRS Technical Advice Memorandum | 662 |
| C. | Licensors in Control | 666 |
| | <i>Eickmeyer v. Commissioner of Internal Revenue</i> | 666 |
| D. | Territorial Limitations | 670 |
| | <i>Kueneman v. Commissioner of Internal Revenue</i> | 670 |
| E. | Retained Right to Income | 675 |
| | <i>Kirby v. United States</i> | 675 |
| F. | Application of Tax Rules in Technology Transfers | 679 |
| | Blatt, <i>Federal Taxation of Software Technology Transfers (Part I)</i> | 679 |
| | Blatt, <i>Federal Taxation of Software Technology Transfers (Part II)</i> | 686 |
| III. | Intellectual Property Holding Companies | 691 |
| A. | Introduction | 691 |
| B. | Federal Tax Implications | 694 |
| C. | State Tax Implications | 695 |
| | Desmond and Cornwell, <i>The Intangible Holding Company: Effectively Managing Intangible Property</i> | 695 |
| D. | Conclusion | 698 |
| E. | Recent Judicial Activity | 699 |
| | <i>The Sherwin-Williams Company v. Commissioner of Revenue</i> | 699 |
| | Giuliani and Nathanson, <i>Massachusetts Legislature Paints Over Sherwin-Williams, Modifies State Tax Treatment of IP Holding Companies</i> | 712 |
| | Notes & Questions | 716 |
| | Chapter 13 Bankruptcy and Security Interests in Licensing | 719 |
| I. | Introduction | 719 |
| II. | Are License Agreements Executory Contracts? | 720 |
| | <i>Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.</i> | 720 |
| III. | Post-Lubrizol Legislative Developments | 724 |
| | Chertok, <i>Structuring License Agreements with Companies in Financial Difficulty Section 365(n)—Divining Rod or Obstacle Course?</i> | 724 |
| IV. | Judicial Interpretation of Section 365(n) | 727 |
| | <i>In Re Prize Frize Inc.</i> | 727 |
| V. | Effect of IPBPA on Licensing Intellectual Property | 730 |
| | Giaccio, <i>The Effect of Bankruptcy on the Licensing of Intellectual Property Rights</i> | 730 |
| VI. | Unexpected Judicial Results | 734 |
| | <i>Institut Pasteur v. Cambridge Biotech Corp.</i> | 734 |
| | <i>In re Catapult Entertainment, Inc., v. Catapult Entertainment, Inc.</i> | 739 |
| VII. | Strategies for Protecting Clients in Potential Bankruptcy Settings | 741 |
| | Kupetz, <i>Intellectual Property Issues in Chapter 11 Bankruptcy Reorganization Cases</i> | 741 |
| VIII. | Perfecting Security Interests in Intellectual Property | 743 |
| A. | Perfecting Security Interests in Copyrights | 743 |
| | <i>In re Peregrine Entertainment, Ltd.</i> | 743 |

| | | |
|-------------------|---|-----|
| B. | Perfecting Security Interests in Trademarks | 750 |
| | <i>In re 199Z, Inc.</i> | 750 |
| C. | Perfecting Security Interests in Patents | 753 |
| | <i>In re Cybernetic Services, Inc.</i> | 753 |
| | Notes & Questions | 764 |
| Chapter 14 | Biotechnology Licensing | 773 |
| I. | Introduction | 773 |
| II. | On the Frontiers of Science and Patent Law | 776 |
| | Long, <i>Re-Engineering Patent Law: The Challenge of New Technologies</i> | 776 |
| | McBride, <i>Bioinformatics and Intellectual Property Protection</i> | 780 |
| III. | The Regime for Licensing Federally Sponsored Research | 785 |
| A. | The Bayh-Dole Act | 785 |
| B. | “March-in” Rights and Compulsory Licensing | 786 |
| | Determination in the Case of Petition of CellPro, Inc. | 787 |
| | Notes & Questions | 792 |
| IV. | Novel Licensing Solutions in the Public Interest—Embryonic Stem Cells | 793 |
| | Miller, <i>A Call to Legal Arms: Bringing Embryonic Stem Cells</i> | |
| | <i>Therapies to Market</i> | 794 |
| V. | Patenting and Licensing Tangible Biological Materials | 797 |
| | Moore v. Regents of the University of California | 798 |
| | Notes & Questions | 805 |
| VI. | Tangible Biological Materials as Tools of Invention | 808 |
| | Sharing Biomedical Research Resources: Principles and Guidelines | |
| | for Recipients of NIH Research Grants and Contracts | 809 |
| VII. | Limiting Exclusive Licenses to Appropriate Field of Use | 811 |
| | University of Rochester v. G.D. Searle & Co., Inc. | 812 |
| | Notes & Questions | 822 |
| VIII. | Modulating Injunctive Relief | 823 |
| | City of Milwaukee v. Activated Sludge, Inc. | 823 |
| | Notes & Questions | 826 |
| | Table of Cases | 829 |
| | Index | 841 |

Preface to the Second Edition

In the short five years since the First Edition of this book was published, intellectual property licensing has grown even more significant than it was at that time. The global intellectual property licensing market now stands at more than \$100 billion. Intellectual property assets today account for more than 40% of the net value of all corporations in America. See Kamil Idris, *Intellectual Property: A Power Tool For Economic Growth* 34 (2002). One simply cannot overstate the importance of intellectual property licensing to all American attorneys.

In recognition of the increased importance of licensing, we substantially revised the First Edition. So much has changed, in fact, that we decided to change the title of the book. It is no longer a “digital” age. Rather, we now, quite clearly, live in a more general “information” age. The new title is intended to capture that fact.

We have extensively modified and supplemented the material for wider coverage and better pedagogy. For example, there is a new chapter on licensing in the biotechnology field (Chapter 14). The introductory material in Chapter 1 has been completely redone to express our understanding that intellectual property licensing is truly an interdisciplinary field. Additionally, Chapter 2 on intellectual property in general has been completely revised to make it a better review and more accessible to students. Chapter 7 on common clauses in licensing agreements was redone to increase its scope and provide better explanation. Chapter 8 regarding software licenses was reworked to keep it as up to date as possible. Chapter 9 on antitrust was revised to add a section on misuse, provide better grounding in the basics and address the challenging issues posed by *United States v. Microsoft*. Many other changes were made.

We also decided that we could serve those adopting this book better if we moved the problems to a web site. Therefore, the problems were all deleted from the hard copy of this textbook. They can be found at www.caplawcom/licensing. Making the problems web-based will allow us to update them and change them as this field continues to evolve. If you adopt this book, please refer to the web site often to keep track of these changes.

Also, in recognition of the growing complexity of intellectual property licensing, we found it extremely helpful to add two new co-authors to our efforts. Barbara Wrigley is a partner in the intellectual property practice group of Oppenheimer, Wolff and Donnelly LLP in Minneapolis, Minnesota, and has a substantial licensing practice. Her practice area requires her to be on the practical, front line of many of the issues presented in this book.

We also added Professor Jay Dratler, Jr., the Goodyear Professor of Intellectual Property at the University of Akron School of Law. For years, Professor Dratler has been a household name in the field of intellectual property licensing. In addition to his incredible depth of knowledge, he also brought an important eye for detail that has served this project well.

Preface to the First Edition

Intellectual property is quickly becoming one of the most financially significant assets of corporations. The ability to recognize intellectual property which has value to others, select appropriate licensing partners, exploit that intellectual property for commercial gain, and police the quality of licensed properties significantly contributes to the net worth of any corporation engaged in such activity. Licensing intellectual property also plays a significant role in gaining market share.

Today, the retail sales of licensed consumer products worldwide alone exceeds \$110 billion dollars per year. The United States Office of Technology Assessment estimates that the world trade in intellectual property directly affects 2.2% of the United States labor force and 5% of the gross national product. A full 25% by value of United States exports are in the form of licensed intellectual property. Any single industry that represents 25% of all United States exports clearly rises to the level of a national security issue.

However, a large portion of this market is being usurped via pirated intellectual property. Although no one is certain of the precise value of the pirated intellectual property, nor can commentators agree exactly on the impact it has on the United States economy as a whole, it is clear that for individual intellectual property owners the impact is substantial. Some industries, such as the compact disc industry, report that the size of their market would double but for international pirating. Whatever the actual size of the pirated market, it all represents potential licensing opportunities.

Therefore, it is crucial that well-trained American lawyers be familiar with the issues involved in the licensing of intellectual property. As intellectual property is involved in one quarter of our national exports, licensing clearly pervades much of the practice of law in any corporate/business setting.

This textbook is intended as an instructional tool to be used by law students at American law schools to understand the complex field of intellectual property licensing. There are many pitfalls that confront any entity attempting to become either a licensee or a licensor of intellectual property. A poorly drafted trademark license agreement, for example, will be null and void in the United States if quality control provisions are not included, and will likely result in a judicial finding of abandonment of the trademark itself. That is, without due care, a good faith attempt to license a trademark that was considered valuable enough to command a license royalty could result in the loss of the trademark right in its entirety.

First, this course book provides an introduction to the business and substantive law of intellectual property licensing. Next, the book methodically analyzes each area of legal concern raised by most intellectual property license agreements. Students should recognize that the subject of the book is about actually practicing intellectual property licensing. Because this practice consists largely of the art of negotiating and drafting li-

license agreements, the book focuses on the license agreement as the targeted end product. Each chapter presents the relevant substantive law and commercial practice using cases, statutes or law review articles. The problem at the end of each chapter allows students to engage the subject, practice skills discussed in the substantive portion of each chapter, and actually “do” law rather than merely talk about it.

The term “intellectual property” as used herein means patents, trademarks, copyrights, trade secrets, and rights of publicity. For those students not familiar with one or more of these substantive areas of the law, Chapter 2 provides an overview. We begin, however, with a more detailed analysis of why owners of patents, trademarks, copyrights, trade secrets or rights of publicity should consider licensing as a business strategy.

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Jay Dratler, Jr. adds as follows:

I’d also like to acknowledge the help—sometimes unwitting—of students in my courses on licensing, copyright, computer law, and cyberlaw. They tested early versions of my contributions and helped me refine them. Without their help, I would not have understood what students of IP and licensing need to know most.

My contributions to this book are deeply indebted to my own legal education at Harvard Law School some thirty years ago. Wide-ranging courses in Accounting for Lawyers, Economics for Lawyers, Corporate Finance and Business Planning—not to mention what little IP was taught back then—instilled in me an interdisciplinary approach to the law. That approach guided me through eight years of practice and two decades of teaching and still helps me handle the subtle blend of law, business, economics, science and engineering that is licensing.

I’d also like to acknowledge help from two decades ago, during my practice in the heart of Silicon Valley. For four years, Fenwick and West gave me the opportunity to specialize almost exclusively in licensing. As I prepared to debark for academia, that firm provided moral and some financial support for a project that eventually became my treatises on licensing and IP. In the same vein, thanks are belatedly due to a former client, Micro Focus, and Paul Adams, its marketing executive some twenty years ago. While helping drive his firm to a successful public offering, Paul taught me more about the business of licensing—and the practical importance of slicing and dicing the field of use—than I’ve ever found in any book.

It has taken almost two decades for academia to catch up to practice and allow me to put what I learned back then into a full course on licensing that a law school could offer. My colleague Professor Jeffrey Samuels and my Dean and Associate Dean Richard Aynes and Elizabeth Reilly deserve credit for making it possible to offer a full course in licensing at the University of Akron. So do the rest of the faculty there, who wholeheartedly supported our nascent IP program from the very beginning.

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Barbara A. Wrigley writes:

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Editorial Note

All deleted passages from excerpted articles and cases are indicated. Some footnotes have been deleted. Some have been renumbered.