Licensing Intellectual Property in the Information Age
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Licensing Intellectual Property in the Information Age

SECOND EDITION

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Carolina Academic Press
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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.*
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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.caplaw.com/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 intelectual 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-
cense 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.
Acknowledgments

The authors would like to thank Mary Dicig, Howard Bremer, Mark Mersereau, Carl Christensen, and Jacie Sprtel. We also would like to express our appreciation to the various students at William Mitchell College of Law, Washington University, and the University of Akron who helped “test drive” various editions of this book. We are also deeply indebted to Meg Daniel and Cal Bonde, faculty support personnel at William Mitchell College of Law. Their dedication and encouragement are appreciated beyond words.

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.

Finally, I’d like to acknowledge our lead author, Ken Port. Without his initiative, leadership, patience, and persistence neither this book nor this improved Second Edition would exist. He made them happen.
Barbara A. Wrigley writes:

I would like to acknowledge various people who have fielded my constant questions during the past two years as I delved into many of the finer details that this text explores, especially Dena Van De Voort for her research assistance; Shirley Bock for her input on security interests; Jim Jorissen for his expertise on the bankruptcy process; Barb Grahn for providing some pointers related to the practical aspects of licensing trademarks; and my assistants Kimberly Hayes, Pam Pederson and Brea Taken for getting the job done. If I have forgotten to mention any names it is merely my memory, not your lack of contribution or my appreciation of your input.

I would also like to acknowledge my co-authors, Ken, Jay, Chuck, Terry and Faye. I have learned much from each of you.

Without the support and understanding of my partners and colleagues at Oppenheimer Wolff & Donnelly, I would not have been able to devote the substantial amount of time that I did to writing, reviewing and editing the present text. Thank you.

I would also like to acknowledge the students in my Licensing Law classes. When Ken Port mentioned to me several years ago that William Mitchell College of Law was going to offer a class in Licensing Law and he was looking for an adjunct professor to teach it, I jumped at the opportunity. I remember my first day of class thinking how bright the students were. That sums up my experience at William Mitchell, a student body that is inquisitive, bright, and engaged. While there are too many names to mention, I thank each of you for having a great deal of patience and for providing your insight into the unfinished chapters and materials from which I taught. It has been my pleasure.

Lastly, I would like to acknowledge and thank the many clients I have represented and who, throughout my sixteen years of practice, have given me the opportunity to hone my “licensing law” skills in real time.

Editorial Note

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