

## CHAPTER 1

# Introduction to Intellectual Property Licensing

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### § 1.01 Intellectual Property Rights

Intellectual property is property that is intangible, difficult of valuation and quantification. While intellectual property is generally defined as personal property,<sup>1</sup> in some states it is even considered communal property.

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<sup>1</sup> See, e.g., Chisum, 1 *Chisum on Patents*, Overview [1] at OV-2 (1998) (“Patents have the attributes of personal property and may be assigned or licensed.”).

The licensing of intellectual property is subject to the common law of contracts, to substantive “intellectual property” laws, such as U.S. federal copyright, trademark and unfair competition, trade secret and patent laws, to state rights of privacy and publicity, and to state, federal, international and supranational regulation.<sup>2</sup> In certain circumstances, the intellectual property laws themselves may govern the enforceability or interpretation of licensing terms, to the exclusion of traditional sources of contract law.<sup>3</sup>

The rights of an owner of intellectual property are frequently described as a “bundle of rights.” As an example, the owner of a copyright in a work has the exclusive right to copy, display, distribute, perform and create derivative works of the copyrighted work. These rights can be transferred in whole, as a single bundle of rights from the owner to another, exclusive of all other parties, or can be “unbundled” and transferred in part, as individual rights granted to one or more recipients. When a rightholder transfers all rights, without reserving the right of reversion upon the expiration or termination of the license, the purported license functions as an assignment.<sup>4</sup> When the rightholder does reserve some rights, the transfer is a true license.<sup>5</sup> Licensed rights may be divided geographically, temporally, and/or by type of right. As an example, a copyright holder may grant one recipient the right to distribute copies of the work in a specified territory and for a limited time, while simultaneously granting another recipient equivalent rights in a different territory or time period.

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<sup>2</sup> See § 1.04[1] and Chapters 2-7 *infra*.

<sup>3</sup> See, e.g., 17 U.S.C. §§ 204(a) and 205 (popularly referred to as the copyright law’s statute of fraud provisions).

<sup>4</sup> See 1 *Eckstrom’s Licensing in Foreign and Domestic Operations* § 1.02[2], at 1-8 (1998). See also, § 1.04[1] *infra*.

<sup>5</sup> See 1 *Eckstrom’s Licensing in Foreign and Domestic Operations* § 6.02[2], at 1-8 (1998). See also, § 1.04[2] *infra*.

**§ 1.02 General Laws Affecting Intellectual Property Licenses****[1]—Contract Law**

Contract law applicable to the licensing of both tangible and intellectual property in the United States has as its foundation the common law, and the gloss placed upon these common law principles by the *Restatement (Second) of Contracts*,<sup>1</sup> relating to offer and acceptance, consideration, statute of frauds, warranty, and parol evidence elements of contract analysis. Because most states have adopted some form of the Uniform Commercial Code (UCC), a contract involving the sale of goods implicates Article 2 of the UCC, in the form adopted by the state.<sup>2</sup> With a contract involving a license of information or a mass-market license, the Uniform Information Transactions Act (UCITA) might prove instructive. UCITA addresses such issues as online offer and acceptance, the use of electronic agents, electronic contracting, “webwrap” and “shrinkwrap” agreements, electronic contracting, digital signatures and authentication, electronic errors, express and implied warranties, misdirection of electronic messages of offer and acceptance, and statute of frauds issues.<sup>3</sup>

Finally, where there is an international element to a transaction, in the absence of an agreement to the contrary, the UCC will be preempted by the United Nations Convention on Contracts for the International Sale of Goods (CISG), as long as both parties to the transaction are located in countries that are members of the Convention.<sup>4</sup>

A potential licensor should be aware of the requirements imposed by standard contract law, from sources such as the common law, the UCC, and the CISG.<sup>4.1</sup> Licensors should also be aware of the dictates of U.S. antitrust law and of those circumstances in which the substantive intellectual property laws underlying the license preempt such provisions.

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<sup>1</sup> The *Restatement (Second) of Contracts* (1981) is a model law, proposed by the American Law Institute, which states are free to adopt as written, to adopt with modifications, or not to adopt at all.

<sup>2</sup> The UCC is a model law, proposed by The American Law Institute and the National Conference of Commissioners on Uniform State Law, which states are free to adopt as written, to adopt with modifications, or not to adopt at all. For the draft of the UCC and other model laws, as well as state enactments, see <http://www.nccusl.org> (last visited Dec. 19, 2003). Article 2 of the UCC addresses the sale of goods; Article 2A, the lease of goods; the UCITA, the sale or lease of certain intangible goods such as intellectual property. Louisiana is the only U.S. state not to have adopted some form of Article 2 or 2A of the UCC.

<sup>3</sup> See Chapter 2 *infra* for a discussion of general contract law issues and the UCC, including UCITA.

<sup>4</sup> United Nations Convention on Contracts for the International Sale of Goods (April 11, 1980), U.N. Doc. A/CONF. 97/18 Annex I (1980), 19 I.L.M. 668.

<sup>4.1</sup> For example, under New York law, a contract may be freely assigned in the absence of language that expressly prohibits assignment. See *Allhusen v. Caristo Construction Corp.*, 303 N.Y. 446, 103 N.E.2d 891 (1952). In addition, an assignment does not modify the terms of an assent. See, e.g., *Ametex Fabrics v. Just in Materials, Inc.*, 140 F.3d 101, 107 (2d Cir. 1998).

**[2]—Antitrust Law**

Licensors of intellectual property must be careful to avoid the appearance of industry collusion in fixing licensing terms and establishing licensing policies.<sup>5</sup> Intellectual property licensors must, in addition, be aware of issues resulting from the inherent tension between antitrust law, which disfavors monopolies, and intellectual property law, which emphasizes “exclusivity” of rights.<sup>6</sup> Much as commentators may regret the ascendant role of antitrust law in the context of intellectual property licensing,<sup>7</sup> intellectual property licensors must often address relevant antitrust principles.<sup>8</sup>

Federal antitrust law is governed by the provisions of the Sherman Act<sup>9</sup> and the Clayton Act,<sup>10</sup> which prevent parties from contracting, combining, or conspiring in restraint of trade (Sherman Act § 1), from monopolizing or attempting to monopolize (Sherman Act § 2), from acquiring stocks or assets that would substantially lessen competition or tend to a monopoly (Clayton Act § 7), and from conditioning the sale or lease of tangible matter upon the licensee’s promise not to use or deal in tangible matter from the licensor’s competitor (Clayton Act § 3). Closely related to these antitrust laws is Section 5(a) of the Federal Trade Commission Act,<sup>11</sup> which penalizes unfair competition, defined in broader terms than the conduct proscribed in Sections 1 and 2 of the Sherman Act.<sup>12</sup> In addition, the Department of Justice and the Federal Trade Commission have jointly issued guidelines addressing intellectual property licensing.<sup>13</sup> Finally, various states have enacted legislation similar to the federal antitrust and unfair competition laws.<sup>14</sup>

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<sup>5</sup> This concern is especially relevant to trade associations, symposia, and trade shows where competitors convene to discuss common issues. Because these concerns are relevant to all aspects of a business entity’s conduct, they are beyond the scope of this discussion, which will focus on antitrust issues specifically related to the licensing of intellectual property.

<sup>6</sup> Because intellectual property laws give the holder of the intellectual property rights an exclusive right, the degree of which varies depending on the type of intellectual property right at issue, to preclude others from utilizing the owner’s intellectual property without a license, there is an inherent tension between intellectual property rights and antitrust doctrine. Antitrust doctrine does not, however, preclude the owner of intellectual property from declining to license the protected material; such a decision does, nevertheless, raise the specter of a claim of misuse. See § 1.03[5] *infra*.

<sup>7</sup> See, e.g., Milgrim, *Milgrim on Licensing* §§ 1.03, 7.01 (1998) (citing authorities critical of antitrust limitations of patent law, and discussing the interplay of antitrust law with both patent and trademark licensing).

<sup>8</sup> All forms included in this work reflect this concern with the antitrust implications of intellectual property licenses.

<sup>9</sup> 15 U.S.C. §§ 1-7.

<sup>10</sup> 15 U.S.C. §§ 15-27.

<sup>11</sup> 17 U.S.C. § 45(a)(1).

<sup>12</sup> Scrutiny of franchising arrangements is frequently predicated on the FTC Act, while patent, trade secret, and copyright arrangements rarely are.

<sup>13</sup> Antitrust Guidelines for the Licensing of Intellectual Property, 1995-1 CCH Trade Reg. Rep. ¶ 13,132, 49 BNA Patent, Trademark & Copyright Journal 714 (April 13, 1995) (allowing a rule of reason rather than a *per se* analysis for intellectual

**[a]—Issues Regarding the Prospective Licensee**

In order to avoid liability under Section 7 of the Clayton Act or Section 2 of the Sherman Act, a potential licensor should confirm that the prospective licensee is legally entitled to license the materials.<sup>15</sup> This issue is particularly important where the prospective licensee is a dominant concern in the industry or a related industry, as it may not legally be able to acquire by purchase, lease or other transfer, patented or nonpatented technology from others. At the very least, the licensor should ensure that the license is nonexclusive and is for restricted use, and should carefully scrutinize provisions regarding the exchange and/or grantbacks of improvements. It is important to keep in mind that receipt of trade secret information, even if limited for evaluation in determining whether to license the trade secret, may be deemed an acquisition of assets for purposes of Section 7 of the Clayton Act.

**[b]—Issues Regarding the Prospective Licensor**

If the prospective licensor is subject to a preexisting consent decree, the parties must ensure that the terms of the proposed agreement have been contemplated or authorized by the consent decree, and will not serve to subvert the purposes of the decree.<sup>16</sup> The prospective licensee might use any non-compliance with the provisions of the consent decree as a basis for negotiating changes in the terms of the proposed license. The licensee should not underestimate the importance of protesting unduly restrictive terms and attempting to renegotiate them, as such behavior has often been the basis for a court to decide whether relief is warranted.<sup>17</sup>

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property licenses). See American Bar Ass'n, Section of Antitrust Law, *The 1995 Federal Antitrust Guidelines for the Licensing of Intellectual Property: Commentary and Text* (1996).

<sup>14</sup> See, e.g., N.Y. Gen. Bus. L. § 340 (Donnelly Act).

<sup>15</sup> For a detailed discussion of this issue, and the points that follow, see Milgrim, 2 *Milgrim on Licensing* § 9.02 (1998).

<sup>16</sup> *Id.*

<sup>17</sup> See, e.g.: *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F. Supp. 207 (D. Conn. 1973); *Plastic Contact Lens Co. v. WRS Contact Lens Laboratories, Inc.*, 330 F. Supp. 441 (S.D.N.Y. 1970). See generally, *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969), *aff'g* 388 F.2d 25 (7th Cir. 1967).

## § 1.03 Intellectual Property Laws Affecting Licenses

## [1]—Copyright

## [a]—Copyright Theory and Practice

Copyright law in the United States is predicated on a constitutional clause empowering Congress to enact laws giving creators exclusivity in their works for a limited time in order to encourage the continued creation of works for use by the public.<sup>1</sup> Under U.S. law, the creator of the copyrighted material, whether written, recorded, built, or otherwise created, is called the “Author,” while the copyrighted material so produced is called an “original work of authorship” or “Work.” U.S. copyright law grants a copyright owner the exclusive right to exploit or license others to exploit the right to (1) reproduce the copyrighted work, (2) prepare derivative works, (3) distribute copies or phonorecords of the work, (4) perform the work publicly, and (5) display the work publicly.<sup>2</sup> The copyright in any Work initially vests in the Author, but may thereafter be transferred by the Author, in whole or in part, to any person or entity to whom the Author wishes to transfer rights. To qualify as an original work of authorship, the material need not meet “requirements of novelty, ingenuity, or esthetic merit,”<sup>3</sup> but must be fixed in a human- or machine-readable medium. Works include, but are not limited to, the following categories:

- (1) literary works;
- (2) musical works, including any accompanying words;
- (3) dramatic works, including any accompanying music;
- (4) pantomimes and choreographic works;
- (5) pictorial, graphic, and sculptural works;
- (6) motion pictures and other audiovisual works;
- (7) sound recordings; and
- (8) architectural works.<sup>4</sup>

U.S. copyright law rests on the premise that the individual expression of ideas, but not the ideas themselves, is copyrightable; this premise is commonly referred to as “the idea/expression dichotomy.”<sup>5</sup> Copyright law, therefore, does not prohibit the independent creation of identical Works, but only

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<sup>1</sup> U.S. Constit., Art. I, § 8, cl. 8. (“The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”) (authorizing Congress to enact both copyright and patent laws).

<sup>2</sup> 17 U.S.C. § 106. The public performance right is limited to literary, musical, dramatic, and choreographic works, pantomimes, motion pictures and other audiovisual works; the public display right, to literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works. *Id.*

<sup>3</sup> H.R. Rep. No. 1476, 94th Cong., 2d Sess. at 51 (1976).

<sup>4</sup> 17 U.S.C. § 102(a).

<sup>5</sup> *Baker v. Selden*, 101 U.S. 99, 25 L.Ed. 841 (1879).

the unauthorized exploitation of existing Works.<sup>6</sup> Finally, although only original Works are copyrightable, the originality threshold is a low one.<sup>7</sup>

Congress first enacted a federal copyright law in 1790,<sup>8</sup> but only the two most recent enactments, those of 1909<sup>9</sup> and 1976,<sup>10</sup> have continuing relevance in copyright licensing. The 1909 Copyright Act continues to govern certain aspects of Works created before January 1, 1978. Under the 1909 Copyright Act, Works were granted federal copyright protection upon publication of the Work, for a mandatory first term and a renewable second term, which together generally granted protection for seventy-five years from first publication.<sup>11</sup> Unpublished works were not protected under the 1909 Copyright Act, but were protected under state statutory and common law copyright provisions.<sup>12</sup>

Copyright protection for Works created after January 1, 1978, the effective date of the 1976 Act, subsists from the moment of creation<sup>13</sup> and continues for seventy years after the end of the Author's lifetime.<sup>14</sup> Copyright vests initially in the Author of the Work.<sup>15</sup> Copyright ownership, and the individual exclusive rights which comprise copyright, may be transferred in

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<sup>6</sup> See, e.g., *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49 (2d Cir.), *cert. denied*, 298 U.S. 669 (1969) (Learned Hand) ("if by some magic a man who had never known it were to compose anew Keats's *Ode on a Grecian Urn*, he would be an 'author,' and, if he copyrighted it, others might not copy the poem, though they might of course copy Keats's.").

<sup>7</sup> See *Feist Publications v. Rural Telephone Service*, 499 U.S. 340, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991).

<sup>8</sup> Act of May 31, 1790, 1st Cong., 2d Sess., 1 Stat. 124 (the "1790 Act") (protecting certain books, charts, and maps only, and providing for an initial fourteen-year term with an optional fourteen-year renewal term). The 1790 Act was amended in 1802 and 1819. Subsequent laws were enacted in 1831 and 1870, each of which was amended numerous times before being replaced. See Patry, 1 *Copyright Law and Practice* 4 (1st ed. 1994). The ultimate result of these amendments was to extend the duration of copyright protection to seventy-five years from first publication.

<sup>9</sup> Act of Mar. 4, 1909, Pub. L. No. 60-349, 60th Cong., 2d Sess., 35 Stat. 1035 (formerly codified as 17 U.S.C. §§ 1 *et seq.* (1976)) (the "1909 Act"). The 1909 Act was amended in 1912, 1913, 1914, 1919, 1926, 1928, 1938, 1939, 1940, 1941, 1947, 1948, 1949, 1952, 1954, 1956, 1957, 1960, 1962, 1968 and 1971. See discussion Patry, 1 *Copyright Law and Practice* 61-74 (1st ed. 1994).

<sup>10</sup> Act of Oct. 19, 1976, Pub. L. 94-553, 94th Cong., 2d Sess., 90 Stat. 2541 (codified as 17 U.S.C. §§ 101 *et seq.* (1982 ed.)) (the "1976 Act") (significantly changing many aspects of the copyright law). See discussion Patry, 1 *Copyright Law and Practice* 74-89 (1st ed. 1994). (reviewing the study and legislative phases of the revision process from 1955 through passage in 1976). The 1976 Act was modified in 1977, 1978, 1980, 1982, 1984, 1986, 1988, 1990, 1992, 1993, 1994, 1996, 1997, 1998, 1999, 2000 and 2002. See e.g., discussion in Patry, 1 *Copyright Law and Practice* 89-118 (1st ed. 1994). Copyright Office Circular 92: Copyright Law of the United States (Sept. 1994).

<sup>11</sup> The calculus of the duration of copyright protection under the 1909 Act varies, depending on whether the author was a single individual, a team of individuals, a corporate entity, or anonymous or pseudonymous, and whether or not the copyright was renewed. For a detailed discussion of the various possibilities, see § 3.07[2][b][v] *infra*.

<sup>12</sup> See, e.g., Goldstein, 3 *Copyright* § 15.4 at 15:38 (1996).

<sup>13</sup> 17 U.S.C. § 302(a).

<sup>14</sup> See § 3.07[2][b][v] *infra* for a more detailed discussion of the duration of copyright under the 1976 Act for works by joint authors, corporate entities, and other nonindividuals.

<sup>15</sup> 17 U.S.C. § 201(d)(1) and (2).

whole or in part.<sup>16</sup> In contrast to the 1909 Act, the 1976 Act explicitly preempts state law on the same or substantially similar protections.<sup>17</sup>

The 1909 and 1976 Copyright Acts contain statute of frauds and recording provisions that supercede the statute of frauds and recording provisions under standard contract law. These provisions vary greatly, however, between the 1909 and the 1976 Copyright Acts; because the Act under which the transfer was made governs the terms of the license, licensors should be aware of the provisions of both Acts. For instance, oral exclusive licenses made before January 1, 1978, the effective date of the 1976 Act, are enforceable under the 1909 Act,<sup>18</sup> though similar agreements made after that date are not enforceable under the 1976 Act.

By virtue of the U.S. adherence to the Berne Convention<sup>19</sup> and the Universal Copyright Convention,<sup>20</sup> as well as numerous bilateral and multilateral agreements, U.S. copyright owners enjoy automatic protection in most countries in the world.<sup>21</sup>

### [b]—Copyright Licensing Issues

Copyrighted materials that are frequently the subject of a license include written materials, graphic art and photographs, and music, for use in products as diverse as printed matter, audiotapes, videotapes, software, and motion pictures. Licensing in these categories of works and industries is frequently subject to the additional requirements of unions, guilds, trade associations, and agents. Licensors of any of these materials and in any of these media are well advised to be versed in the various licensing limitations so imposed.<sup>22</sup>

In addition to industry-specific limitations on licensing, copyright law itself imposes numerous limitations, one of which is the nonwaivable right of an author or an author's heir to terminate any license or assignment long after the initial grant of rights or distribution of the Work, regardless of any contrary contractual provisions.<sup>23</sup>

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<sup>16</sup> 17 U.S.C. § 201(a).

<sup>17</sup> 17 U.S.C. § 301.

<sup>18</sup> Act of Mar. 4, 1909, Ch. 320, 35 Stat. 1075, as amended.

<sup>19</sup> Berne Convention for the Protection of Literary and Artistic Works of September 9, 1886 (Paris text, 1971, as amended 1979), 828 U.N.T.S. 221, available at [http://www.wipo.org/eng/iplex/wo\\_ber0\\_.htm](http://www.wipo.org/eng/iplex/wo_ber0_.htm) (visited July 20, 1998).

<sup>20</sup> Universal Copyright Convention (Paris text, 1971), 25 U.S.T. 1341, T.I.A.S. No. 7863, 216 U.N.T.S. 132, available at <http://www.tufts.edu/departments/fletcher/multi/texts/UNTS13444.txt> (visited July 14, 1998).

<sup>21</sup> For a discussion of the terms of these and other multinational agreements and associations, see § 2.02 *infra*. See also, Copyright Office, Circular 38a: International Copyright Relations of the United States, available at <http://lcweb.loc.gov/copyright/circs> (visited Nov. 4, 2003) (detailing the countries with whom the United States has established copyright relationships and the terms governing those relationships).

<sup>22</sup> See: Chapter 8 *infra* (Music Licensing) for more detailed discussion of these limitations.

<sup>23</sup> The author's (and the author's heir's) nonwaivable right to terminate copyright grants after a prescribed period was introduced by the 1976 Copyright Act. For assignments or licenses which involve works that were not works for hire, which cover the renewal copyright term, and which were executed prior to January 1, 1978 (the effective date of the 1976 Act), the five-year termination period begins fifty-six years after the copyright was originally secured. 17 U.S.C. § 304(c)(3). For assignments or licenses of similar grants after January 1, 1978, the period begins the earlier of thirty-five years after first distribution of the work or forty years from date of the license or assignment. 17 U.S.C. § 203.



**[2]—Trademark**

Unlike copyright and patent laws, the stated aim of which is to encourage innovation, trademark law in the U.S. is predicated on consumer-protection ideals. Under U.S. trademark law, the owners of marks are able to protect their rights against uses that are likely to cause confusion, mistake, or deception among consumers; owners of “famous” marks are also able to protect their marks from dilution, even in the absence of a likelihood of confusion.<sup>24</sup> Trademarks and service marks (collectively, “marks”) are words, sounds, or images used by the providers of goods or services to identify the source of the goods or services, and to distinguish their goods or services from the goods or services of their competitors.<sup>25</sup> To be protected, the mark must not be geographically or content descriptive, and must include some element that distinguishes one provider’s goods or services from another’s.

Federal trademark law, whose authorization is predicated on the Commerce Clause, coexists with, and is supplemented by, state statutory and common law. Federal protection of marks is provided by the Lanham Act,<sup>26</sup> which requires registration of the mark and applies only to marks actually used, or those the provider has the bona fide intent to use, in interstate commerce.<sup>27</sup> State statutory protection of marks requires registration of the mark with the statutorily-designated state agency, while state common law protects the mark only in the geographical area in which the mark is used in connection with goods and services. Federal law gives the owner of the mark the nationwide right to use the mark in connection with the type of goods or services provided by the mark’s owner. State statutory and common law protect the owner’s rights only in the geographical territory (territories) in which the mark is actually in use.

Under federal law, trademark protection is renewable for an unlimited number of ten-year terms, requiring only the filing of an affidavit of continued use in the sixth year of the initial term and continued use in commerce during the renewal terms.<sup>28</sup> The duration of state statutory protection of marks varies from jurisdiction to jurisdiction, while state common law protection subsists for so long as the mark is in use. In order to qualify for international trademark protection, the trademark owner must comply with the individual laws of the countries in which protection is sought; the international trademark conventions<sup>29</sup> do not provide automatic protection to U.S. trademark owners.

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<sup>24</sup> For a fuller discussion of these issues, see § 4.01 *infra*.

<sup>25</sup> See: McCarthy, 1 *McCarthy on Trademarks and Unfair Competition* §§ 2:3, 3:1 (1998); Milgrim, 1 *Milgrim on Licensing* §§ 4.15-4.27 (1998).

<sup>26</sup> Lanham Act, Act of July 5, 1946, Ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051-1127 (1994)).

<sup>27</sup> 15 U.S.C. § 1112.

<sup>28</sup> 15 U.S.C. §§ 1058-1059.

<sup>29</sup> A preeminent intellectual property convention is the Paris Convention for the Protection of Industrial Property of March 20, 1883 (Stockholm text, 1967, amended 1979), 21 U.S.T. 1538, 828 U.N.T.S. 305, available at [http://www.wipo.org/eng/iplex/wo\\_par0\\_.htm](http://www.wipo.org/eng/iplex/wo_par0_.htm) (visited April 20, 1998).

Trademarks are generally licensed in the context of franchise, distribution, manufacturing, and merchandising agreements.

### [3]—Trade Secret

Like trademark law, trade secret law springs from a consumer-protection impulse, in that it attempts to codify a business code of ethics and to ensure commercial privacy. These public policy concerns are generally regarded as superior to the goals of encouraging innovation through the granting of trade secret status. For this reason, trade secret law protects against only the misappropriation and use of the trade secret, not against independent development or proper discovery of the secret by others. A trade secret is any information, not generally known, that gives an actual or potential commercial advantage to its owner and has been maintained as a secret by its owner.<sup>30</sup> Trade secrets are protectable for so long as the owner maintains the information as a secret<sup>31</sup> and the information does not otherwise become generally known. The qualifying information does not, however, generally have to meet any standards comparable to patent law's novelty standard or copyright law's originality standard.<sup>32</sup> Trade secrets can include customer lists, methods of doing business, formulas, and designs.

There is no federal trade secret law in the United States,<sup>33</sup> but only state-enacted provisions. Although states have followed different models in enacting their trade secret laws, there is little discrepancy among the individual states' key provisions. The most influential sources for trade secret law in the United States are the *Restatement of Torts*,<sup>34</sup> the Uniform Trade Secrets Act,<sup>35</sup> and the *Restatement (Third) of Unfair Competition*.<sup>36</sup> Internationally, a trade secret owner must comply with the laws of the countries in which trade secret protection is sought; there is no international treaty or convention which automatically affords protection to the U.S. trade secret owner.

In the trade secret context, the term "license" is actually a misnomer: more accurately, the trade secret owner agrees to disclose the secret to another party, for limited purposes, subject to certain restrictions.<sup>37</sup> A trade secret

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<sup>30</sup> Pooley, *Trade Secrets* § 1.01 (Law Journal Seminars-Press 1997).

<sup>31</sup> Absolute secrecy, however, is not required. See § 5.02 *infra*.

<sup>32</sup> For further discussion of these standards, see Chapter 3 *infra* (Copyright) and Chapter 6 *infra* (Patent). There is, however, one instance in which a novelty standard can be said to exist for trade secrets. See § 5.01 *infra* (discussing the novelty requirement for trade secrets involving the submission of an idea).

<sup>33</sup> There are, however, federal criminal statutes relating to the theft of trade secrets. See, e.g., § 5.04 *infra* (discussing the Economic Espionage Act).

<sup>34</sup> See *Restatement of Torts* § 757, Comment b (1939).

<sup>35</sup> Uniform Trade Secrets Act (UTSA), 14 U.L.A. § 399 (1985) (approved in 1979 and amended in 1985).

<sup>36</sup> See *Restatement (Third) of Unfair Competition* § 39 (1995). For details of the various definitions, and the inherent differences between them, see discussion in § 5.01 *infra*.

<sup>37</sup> See, e.g., *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 852 (1st Cir. 1985), *cert. denied* 475 U.S. 1016 (1986) (trade secret protection lost when information originally filed confidentially was made publicly available).

owner typically disclosed the trade secret to another party in connection with a development agreement, whether in an outsourcing, joint venture, or focus-group testing context. Disclosure of trade secrets may also be implicated in a license, such as a software license, where the trade secret may be incidentally revealed or may be discoverable through reverse engineering or decompilation. No matter how a trade secret may be revealed, the trade secret owner should include appropriate confidentiality language in the agreement with the recipient of the information.

#### [4]—Patent

Like copyright law, U.S. patent law is grounded on an explicit constitutional provision intended to encourage innovation,<sup>38</sup> and preempts state action in the same field, though it does not preempt complementary state trade secret or trademark law.<sup>39</sup> Also like copyright law, patent law has a venerable tradition in the United States: Congress first enacted a patent statute in 1790, while the current statute was enacted in 1952.<sup>40</sup> Unlike copyright, however, patent rights do not arise automatically, but must be explicitly granted by the federal government following an application and examination.<sup>41</sup>

The U.S. patent law balances the interests of scientists and society in having unfettered access to scientific advances against the interests of inventors in recouping some of their financial and temporal investment in research.<sup>42</sup> The compromise articulated by the patent law requires the patentee to make full public disclosure of the invention, in exchange for the exclusive right to prevent others—even independent inventors—from making, using, or selling the patented invention during the term of the patent absent an express or implied license from the patent holder. To counterbalance the broad power of a patent grant, patent terms are limited to twenty years from filing for utility patents and fourteen years from issuance for design patents. In order to qualify for this high level of protection, patents must pass the tests of patentable subject matter, novelty, nonobviousness, and utility, a much higher standard than the copyright law's seemingly comparable originality standard. Patent protection for U.S. inventors is available outside the United States only if the inventor complies with various national laws and international conventions; a U.S. patent provides no protection outside the United States.

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<sup>38</sup> U.S. Constit., Art. I, § 8, cl. 8 (the copyright and patent clause); see §1.03[1][a] *supra*.

<sup>39</sup> See *Kewanee Oil Co. v. Bicrom Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974).

<sup>40</sup> 35 U.S.C. §§ 100-293.

<sup>41</sup> Because the grant of patent rights under U.S. law is far from a certainty, the rights of the potential patentee traditionally have been protected during the application and examination process by trade secret law. Under U.S. law, prior to 1999, the patent application is confidential; the invention is not disclosed to the public until after the patent is granted, if the patent is granted. This policy was modified with the enactment of the American Inventors Protection Act of 1999, § 1000(a)(9), Div. B, of Pub. L. 106-11, 113 Stat. 1501 (1999), which provides for the publication of certain patent applications after 18 months from the filing of the application.

<sup>42</sup> See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-481, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974) (discussing the objectives of patent law).

Patent licensing issues arise most frequently in product development and manufacturing and in cross-licensing related to the settlement of patent disputes.

### [5]—The Misuse Doctrine

The misuse doctrine, a defense to an infringement claim, asserts that the holder of an exclusive intellectual property right has improperly exceeded the holder's statutory rights.<sup>43</sup> Other inequitable conduct found to constitute "unclean hands" might also support a misuse defense. A finding of misuse denies the rightholder the enforcement of the exclusive right against infringers and might deny relief for a breach of contract claim against a licensee.<sup>44</sup> Once the misuse and its effects end, the exclusive right would thereafter be enforceable against future infringers.<sup>45</sup>

Because trade secret law does not confer any exclusive rights on the holder of the trade secret—and so does not provide an opportunity for abuse of those rights—the misuse doctrine does not exist in the trade secret context.

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<sup>43</sup> For a fuller discussion of the misuse doctrine, see Szczepanski, 1 *Eckstrom's Licensing in Foreign and Domestic Operations* § 8.01[1][a] (1998).

<sup>44</sup> *Id.* at § 8.01[1][b].

<sup>45</sup> *Id.* at § 8.01[1][c].

The applicability of the doctrine is limited to patent, trademark and copyright law. Under patent law, a patentee's conduct must offend the antitrust laws in order to constitute patent misuse.<sup>46</sup> Under trademark law, the misuse must be directly related to the trademark alleged to have been infringed; as a result, it is a defense rarely asserted and, when asserted, usually rejected.<sup>47</sup> Finally, under copyright law, the misuse defense has been raised in only a few cases<sup>48</sup> and, in those cases involving antitrust allegations as a defense to infringement claims, there has been little evidence of a direct relationship between the copyright and the antitrust-prohibited activity.<sup>49</sup>

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<sup>46</sup> 35 U.S.C. § 271(d). Such was not the case before 1988, when Congress amended the patent law to introduce this provision. Pub. L. No. 100-703, 102 Stat. 4674, 4676 (Nov. 19, 1988).

<sup>47</sup> See, e.g., McCarthy, 5 *Trademarks and Unfair Competition* § 31:24 (1998) (asserting that there have been no reported trademark infringement cases in which the court refused to enforce a trademark because it violated antitrust law).

<sup>48</sup> See:

*Second Circuit*: Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Services, 746 F. Supp. 320, 327-328 (S.D.N.Y. 1990).

*Ninth Circuit*: Practice Management Information Corp. v. AMA, 121 F.3d 516, 520 & n.9 (9th Cir. 1997) (adopting the rule that copyright misuse is a defense to copyright infringement).

<sup>49</sup> See, e.g., Lasercomb America v. Reynolds, 911 F.2d 970, 978 (4th Cir. 1990) ("a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action").

## § 1.04 Types of Transfers

### [1]—Assignment

Under copyright, trademark, trade secret,<sup>1</sup> patent, and mask work protection laws, an owner may assign all of its rights in the protected material.<sup>2</sup> In such a transfer, the owner relinquishes, in perpetuity, all rights inherent and appurtenant to an owner of the assigned work, including the right to make use of the subject matter of the assignment absent a license back from the assignee, and the assignee assumes all rights, including the right to assign or license the material further.<sup>3</sup> For a true assignment to be found, the rightholder must not even retain the right to terminate the agreement.<sup>4</sup> A purported assignment with such a clause will be deemed a license rather than an assignment.<sup>5</sup>

### [2]—License

In addition to assignments of all rights in a work, the owner has the right to license individual rights among his “bundle” of rights in the work, on an exclusive or nonexclusive basis. These rights may be divided geographically, temporally and/or by type of right (which rights may themselves be divided, for instance, according to market or type of product). Like assignments,

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<sup>1</sup> Assignments of trade secrets generally arise in connection with the assignment of a trade secret by the inventor to an employer. See Pooley, *Trade Secrets* § 8.03 (Law Journal Seminars-Press 1997). Under U.S. patent law, an exclusive worldwide license to all rights under the patent, without reserving any rights, will transfer ownership of the patent. See discussion in § 6.02 *infra*. Under U.S. trademark law, however, a similar license of a trademark will transfer ownership only if the owner specifically cedes its claim of ownership. See discussion in § 4.02 *infra*.

<sup>2</sup> 17 U.S.C. § 201(d)(2) (copyright); 15 U.S.C. §§ 1055 and 1127 (trademark); 35 U.S.C. § 261 (patent); 17 U.S.C. § 904 (mask works).

<sup>3</sup> See Chapter 3 *infra* (describing the rights of a copyright holder); Chapter 4 *infra* (trademark); Chapter 5 *infra* (trade secret); Chapter 6 *infra* (patent); Chapter 7 *infra* (privacy and publicity).

<sup>4</sup> Under U.S. patent law, an exclusive worldwide license to all rights under the patent is tantamount to a transfer of ownership. See discussion in § 6.02 *infra*. Under U.S. trademark law, however, a trademark owner may grant an exclusive worldwide license to all rights in the trademark if the trademark is in actual use in commerce, without risking an inadvertent transfer of ownership; only if the owner specifically cedes its claim of ownership would the agreement transfer ownership of the trademark. The case is otherwise if the trademark is the subject of an intent to use applications (and is, therefore, not yet in commercial use); in such a case, the trademark cannot be assigned except in connection with the sale to the assignee of the business to which the trademark pertains. See discussion in § 4.02 *infra*.

<sup>5</sup> The topic of assignments will not be further discussed, aside from the need for a transferor to ensure that a transfer intended as an assignment should not inadvertently become a license, and the concomitant need to ensure that a transfer intended as a license will not inadvertently become an assignment. A full discussion of assignments is beyond the scope of this treatise.

an exclusive license may convey an interest tantamount to ownership.<sup>6</sup> As an example, an exclusive licensee of a copyright has standing to sue for copyright infringement for that portion of the copyright owner's right which is the subject of the license;<sup>7</sup> nonexclusive licensees do not.<sup>8</sup> Additionally, exclusive licenses must comport with the statute of frauds and recording provisions of the Copyright Act;<sup>9</sup> nonexclusive licenses do not.<sup>10</sup>

Under the common law<sup>11</sup> doctrine of licensee estoppel, a licensee was forbidden to challenge the licensor's ownership of an intellectual property right, or the validity of that intellectual property right, during the license term. Under current U.S. law, licensee estoppel continues to be applied in all circumstances only in the context of trademark and trade secret licenses. The doctrine of licensee estoppel has been made explicitly inapplicable to patent licensees.<sup>12</sup> When a copyright license is litigated, courts have, in some circumstances, applied the doctrine, while courts in other circumstances have not.<sup>13</sup> This disparate treatment of intellectual property regimes reflects the degrees to which the patent, copyright, trademark and trade secret laws vary in their ability to exclude third parties.

Because all patent owners are able to exclude all others from making, using, or practicing the patented article, even if developed independently, and regardless of context, the patent grant is the most exclusionary form of intellectual property protection. For this reason, patent licensees are not estopped from challenging the patents under which they are licensed, as challenging an invalid patent is deemed to be in the public interest of promoting scientific progress by not unreasonably withholding scientific and technical advances from widespread use.<sup>14</sup>

At the other end of the spectrum of intellectual property law, a trademark owner can only prevent the use of an identical mark in the same class of

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<sup>6</sup> Note, however, that the 1909 and 1976 Copyright Acts differ in this regard. See, e.g., *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1333-1334 (9th Cir. 1984) (citing authorities under the 1909 Act). As previously discussed, see § 1.03[1][a] *supra*, the 1909 Act has continuing relevance for transfers accomplished under its aegis.

<sup>7</sup> 17 U.S.C. § 501(b).

<sup>8</sup> *Fifth Circuit*: *Lulirama Ltd., Inc. v. Axxess Broadcast Services*, 128 F.3d 872, 879 (5th Cir. 1997) (citing *Nimmer and Nimmer*, 3 *Nimmer on Copyright* § 10.03[A], at 10-40 (1997)).  
*Seventh Circuit*: *I.A.E., Inc. v. Shaver*, 74 F.3d 768 (7th Cir. 1996).

*Ninth Circuit*: *Effects Associates v. Cohen*, 908 F.2d 555 (9th Cir. 1990), *cert. denied sub. nom.* *Danford v. Cohen*, 498 U.S. 1103, 111 S.Ct. 1003, 112 L.Ed.2d 1086 (1991).

<sup>9</sup> 17 U.S.C. §§ 204(a) and 205 (providing that transfers of copyright must be in writing).

<sup>10</sup> See 17 U.S.C. § 101 (expressly excluding nonexclusive licenses from the definition of "transfer of copyright ownership").

<sup>11</sup> Common law is a body of judge-made law addressing issues for which no statutory codification exists.

<sup>12</sup> Licensee estoppel had been applied to patent licensing until 1969. In that year, the Supreme Court held that, because licensees have a greater incentive than third parties to challenge the patents under which they are licensed, and because challenging invalid patents is in the public interest, patent license provisions prohibiting licensees from challenging a patent's validity are unenforceable. *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969).

<sup>13</sup> See, e.g., *NEC Corp. v. Intel Corp.*, 19 U.S.P.Q.2d 1177 (N.D. Cal. 1989).

<sup>14</sup> *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969). See discussion in Chapter 6 *infra*.

goods as the owner's mark; identical marks in different classes are possible, as are similar marks in the same class.<sup>15</sup>

Similarly, the owner of a trade secret can prevent the theft and use of the trade secret by an employee or third party, but cannot prevent independent development of the same trade secret.<sup>16</sup> For this reason, trademark and trade secret laws are the least exclusionary form of intellectual property protection; as a result, these licensees are estopped from challenging the ownership or validity of the relevant intellectual property rights.<sup>17</sup> Because copyrights are sometimes exclusionary and sometimes not, the doctrine applies in copyright law only in those circumstances in which the copyright grants an owner exclusionary rights.<sup>18</sup>

### [a]—Express License

An express license is an explicit oral or written agreement between a licensor and a licensee to transfer certain rights from the licensor to the licensee. Even though it is explicit, an express license may be found invalid or unenforceable by operation of contract law (which, for policy purposes, may, as an example, hold a purported express license unenforceable as unconscionable or as violative of the requirement that certain agreements be in writing), state restraint of trade, antitrust, and intellectual property laws and policy.<sup>19</sup> Substantive laws, such as intellectual property laws, may, however, supercede the relevant state's general contract law or its statute of frauds provision.<sup>20</sup> Absent such a provision in the substantive law, general contract law or statute of frauds principles would govern the agreement. Under general contract law, an express license can be created as a result of a series of written communications, even in the absence of a final written agreement, if no terms are reserved for future negotiation.<sup>21</sup> The parol evidence rule generally prohibits oral modification of a written agreement if the oral statements precede or accompany the reduction to writing of the general agreement. Finally, general principles of contract law would make an express license enforceable, even if never reduced to writing, if the terms of the license can be proven. Even where such terms are ambiguous, the express license may be enforceable if there has been a partial performance.<sup>22</sup>

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<sup>15</sup> See Chapter 4 *infra* (trademark).

<sup>16</sup> See Chapter 5 *infra* (trade secret).

<sup>17</sup> Milgrim, 2 *Milgrim on Licensing* §§ 8.57 at 8-189 through 8-190 (1998) (citing trademark and copyright cases on licensee estoppel). See discussion in Chapter 3 *infra* (copyright) and Chapter 4 *infra* (trademark).

<sup>18</sup> Milgrim, 2 *Milgrim on Licensing* §§ 8.57, at 8-190 (1998) (citing copyright cases). See discussion in Chapter 3 *infra* (copyright).

<sup>19</sup> Szczepanski, 1 *Eckstrom's Licensing in Foreign and Domestic Operations* § 1.05[1][a], at 1-25 (1998). See Chapter 2 *infra*.

<sup>20</sup> The "statute of frauds" is the name given to the rules governing when an agreement must be in writing. See § 1.02[1] and Chapter 3 *infra* for a discussion of copyright law's overarching statute of frauds and recording provisions.

<sup>21</sup> Szczepanski, 1 *Eckstrom's Licensing in Foreign and Domestic Operations* § 1.05 [1][a] at 1-26 (1998).

<sup>22</sup> For a fuller discussion of these issues, see *id.* at §§ 2.02 and 2.03.



**[b]—Implied License**

According to the case law regarding implied licenses, a contract may be created by implication if either party's communications or the licensor's objective conduct—not the subjective intent of either party—enables a determination of the terms.<sup>23</sup> An implied license cannot, however, be deemed to exist if an express agreement addressing the same subject matter already exists, particularly if the terms of the express agreement and the purported implied agreement conflict.<sup>24</sup> In such a situation, the express agreement would invalidate the implied agreement. Where, however, the implied license is necessary for the enjoyment of the express license of an intellectual property right, the implied license will be found.<sup>25</sup>

**[c]—Compulsory License**

Compulsory licenses require a copyright holder to, in certain circumstances, nonexclusively license some portion of the copyright at a royalty rate prescribed by statute.<sup>26</sup> The first compulsory license under U.S. law was that for the mechanical recording of copyrighted music.<sup>27</sup> The mechanical recording

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<sup>23</sup> *DeForest Radio Telephone & Telegraph Co. v. United States*, 273 U.S. 236, 47 S.Ct. 366, 71 L.Ed. 625 (1927).

<sup>24</sup> *Szczepanski*, 1 *Eckstrom's Licensing in Foreign and Domestic Operations* § 1.05[1][a], at 1-27 (1998) (noting that objective conduct, not subjective intent, determines whether a license can be implied).

<sup>25</sup> *Supreme Court: Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) (those who purchase a patented article from an authorized dealer have an implied license to maintain and repair the article); *Wilson v. Simpson*, 50 U.S. 109, \_\_ S.Ct. \_\_, 13 L.Ed. 66 (1850).

*Federal Circuit: Met Coil Systems Corp. v. Corners Unlimited, Inc.*, 803 F.2d 684 (Fed. Cir. 1986) (express license under one claim of a patent creates an implied license in the remaining claims of that patent as are necessary for the enjoyment of the express license); *Banding Inc. v. Al Bolsu's Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984), *aff'd* 809 F.2d 788 (Fed. Cir. 1986) (express license under one patent creates an implied license under licensor's other patents where such license is necessary for the enjoyment of the express license).

<sup>26</sup> Compulsory licenses also appear in the patent area in instances involving, among other things, restraint of trade or times when an inadequate supply of medicine threatens the public health interest. For example, in 2005, the public interest justification was implicated when several senators called upon the U.S. government to issue compulsory licenses to generic drug manufacturers, bypassing the patent of Swiss pharmaceutical company Roche AG, to allow the U.S. to stockpile adequate supplies of the anti-avian bird flu drug Tamiflu to prepare for the possibility of a North American outbreak. Eventually, Roche AG acceded without the need for U.S. government action and agreed to license the drug to generic companies and foreign governments that wished to produce supplies of the drug. Also, the TRIPs agreement describes how to establish compulsory licensing in the event of a growing health crisis.

<sup>27</sup> The compulsory license concept in the United States had its genesis in a case holding that music rolls for player pianos, which reproduced music by means of strategically placed holes in the paper rolls, did not infringe the musical composition of the songs thus played. *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1,

compulsory license<sup>28</sup> applies only to distribution of recorded copyrighted musical compositions to the public for private use; it does not apply to broadcasters, jukebox operators, or background music services. The so-called “statutory rate,” however, sets a ceiling—not a mandate—for the royalty due; the parties may negotiate a lower royalty or one based on different terms.<sup>29</sup>

Since the first introduction of the compulsory license for mechanical reproduction, Congress has periodically introduced new compulsory licensing schemes into the Copyright Act. Today, there are compulsory licenses for the mechanical recording of a nondramatic musical work, Webcasting of sound recordings,<sup>29.1</sup> and for broadcast, cable, and satellite television.<sup>30</sup>

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28 S.Ct. 319, 52 L.Ed. 655 (1908). The case had been brought in an attempt to achieve recognition of a mechanical reproduction right; in exchange for pursuing the case to the Supreme Court, The Aeolian Company had acquired numerous exclusive long-term licenses to manufacture the perforated rolls. Congress recognized the need for the mechanical reproduction right, but was concerned about the antitrust implications of one company’s having a monopoly on the manufacturing of all music in the United States. The compulsory recording license was Congress’ compromise: the right was established, but was predicated on a compulsory license scheme providing that, once the copyright owner had recorded or authorized the recording of a musical composition, anyone else could record the composition upon payment of a statutorily-specified royalty. 17 U.S.C. § 1(e), 35 Stat. 1075 (1909). The current provision can be found at 17 U.S.C. § 115. See discussion in Chapter 3 *infra*.

<sup>28</sup> The current statutory rate for the mechanical recording compulsory license can be found at 37 C.F.R. § 255.3 (phonorecords) and 37 C.F.R. § 255.5 (digital phonorecord delivery). Absent an agreement to the contrary, this rate applies to all copies distributed, whether sold or provided as complimentary copies. 17 U.S.C. § 115\_c.(2). The law provides for periodic adjustments of the statutory rate. 17 U.S.C. § 801(b)(1) (authorizing adjustments); 37 C.F.R. § 251.61(a)(3) (rev. July 1, 1997) (establishing procedure for adjustments).

<sup>29</sup> For instance, a rate of 75% of the statutory rate is common for educational use; rates based on the number of copies made or on the number sold, not on those distributed, is possible.

<sup>29.1</sup> In one instance a jury found an online “Internet radio” service that allows customers to create artist-specific music streams is a non-interactive service entitled to a compulsory license under the Digital Millennium Copyright Act. See *Arista Records, Inc. v. Launch Media, Inc.*, No. 01 Civ. 4450 (S.D.N.Y. April 27, 2007).

<sup>30</sup> See, e.g., *CBS Broadcasting, Inc. v. EchoStar Communications Corp.*, 450 F.3d 505 (11th Cir. 2006) (satellite television provider violated copyright law when it misused a compulsory license scheme designed to benefit rural households).