



## Topic 7A: Licensing

Eric E. Johnson

[ericejohnson.com](http://ericejohnson.com)



Konomark  
Most rights sharable

## Roadmap:

- Intellectual property
  - Doctrines, rationales, etc.
- What is a license?
- Is a license a contract? What's the difference?
- Contractual remedies vs. IP remedies
- Licensing specifics for different forms of IP
- Some key points for keeping things straight
- ALI/ULC attempts to create new law

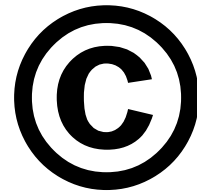
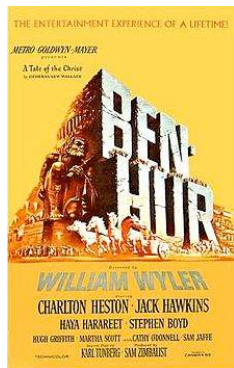
# Intellectual property

## the kinds of IP

Copyrights  
Trademarks  
Patents  
Trade Secrets  
Rights of Publicity

**You**  
own intellectual  
property

# Doctrine



Copyright



# Copyright

- Books
- Poems
- Movies
- Computer software
- Photographs
- Paintings
- Sculptures

# Copyright

- original works of authorship fixed in any tangible medium of expression from which they can be perceived, either directly or with the aid of a machine

## Copyright ©

Protects	expression (text, images, recordings)
Requires	a mere modicum of creativity
Vests	automatically upon creation
Sustained by	<i>[nothing]</i>
Lasts	lifetime + 70 years; or 95 years
Theory	incentive to create; public goods problem

## Patent



## Patent <sup>PAT.</sup>

Protects	machines, inventions
Requires	some level of cleverness (nonobviousness, inventive step)
Vests	after application, upon issuance by government
Sustained by	escalating maintenance fees
Lasts	up to 20 years
Theory	incentive to invent and disclose; public goods problem



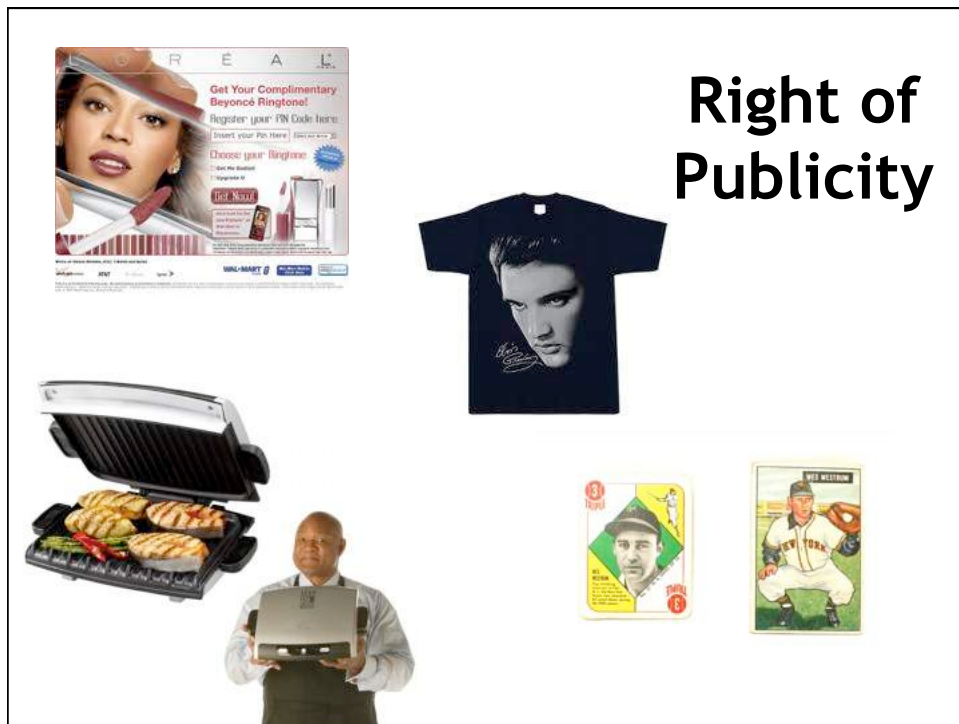
Trademark

# source

## Trademark ® ™

Protects	names, logos, slogans, other indications of commercial source
Requires	distinctiveness (can identify a commercial source)
Vests	common law: upon use federal: after use, upon registration
Sustained by	continued use
Lasts	as long as used, potentially forever
Theory	provide information to consumers





## Right of Publicity

Protects	name, voice, image, other indicia of identity
Requires	nothing; fame in a few jurisdictions
Vests	automatically
Sustained by	<i>[nothing]</i>
Lasts	lifetime; post-mortem in some states
Theory	???



**Trade  
Secret**



## Trade Secret

Protects	formulas, recipes, manufacturing techniques, and other intangibles with independent economic value
Requires	secrecy and reasonable efforts to keep secret
Vests	automatically
Sustained by	continuing secrecy and efforts to keep secret
Lasts	potentially forever
Theory	????

## Comparisons ...

## What is protected?

©	Expression (text, images, recordings)
Pat.	Inventions (manmade)
TM	Indications of commercial source
Trade Secret	Transferrable commercial secrets
Right of Publicity	Indications of personal identity

## What does it take to get it?

©	Fixation (immediate)
Pat.	Application, gov't review
TM	Use in commerce, creating meaning
Trade Secret	<i>Nothing</i>
Right of Publicity	<i>Nothing</i> (fame, some places)

## What does it take to keep it?

©	Nothing
Pat.	Payment of maintenance fees
TM	Continued use in business
Trade Secret	Keeping it secret
Right of Publicity	Nothing

## How long does it last?

©	about 100 years
Pat.	about 20 years
TM	forever (if used)
Trade Secret	forever (if kept secret)
Right of Publicity	life + extra sometimes

## How is it lost?

©	<i>Very difficult</i>
Pat.	Unpaid fees; successful challenge
TM	Failure to keep exclusive control
Trade Secret	The secret gets out
Right of Publicity	<i>Very difficult</i>

## Defenses include ...

©	Fair use, first-sale
Pat.	Invalidity, first-sale
TM	Non-trademark uses, fair uses, first-sale
Trade Secret	Reverse engineering
Right of Publicity	News, free speech, non-commercial

## First-sale doctrine



### Remedies include ...

©	Injunctions; restitution (of D's wrongful gains); statutory damages up to \$150K per infringement
Pat.	Injunctions; royalties; treble damages
TM	Injunctions; punitive damages; treble damages
Trade Secret	Injunctions; restitution (of D's wrongful gains); punitive damages; royalties
Right of Publicity	Injunctions; punitive damages

# the LABEL

What is  
“intellectual property”?



Is it  
“property”?

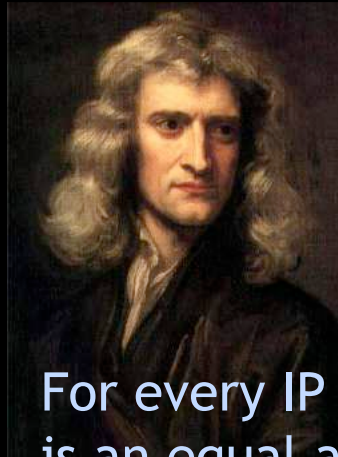
Is it  
“property”?  
*It depends on who you ask.*

Is the right to receive  
government welfare  
property?

Is a professional license  
property?

Is a government pension  
property?

What's  
“intellectual”  
about it?



## Newton's Third Law of IP

For every IP entitlement, there is an equal and opposite reduction in freedom.

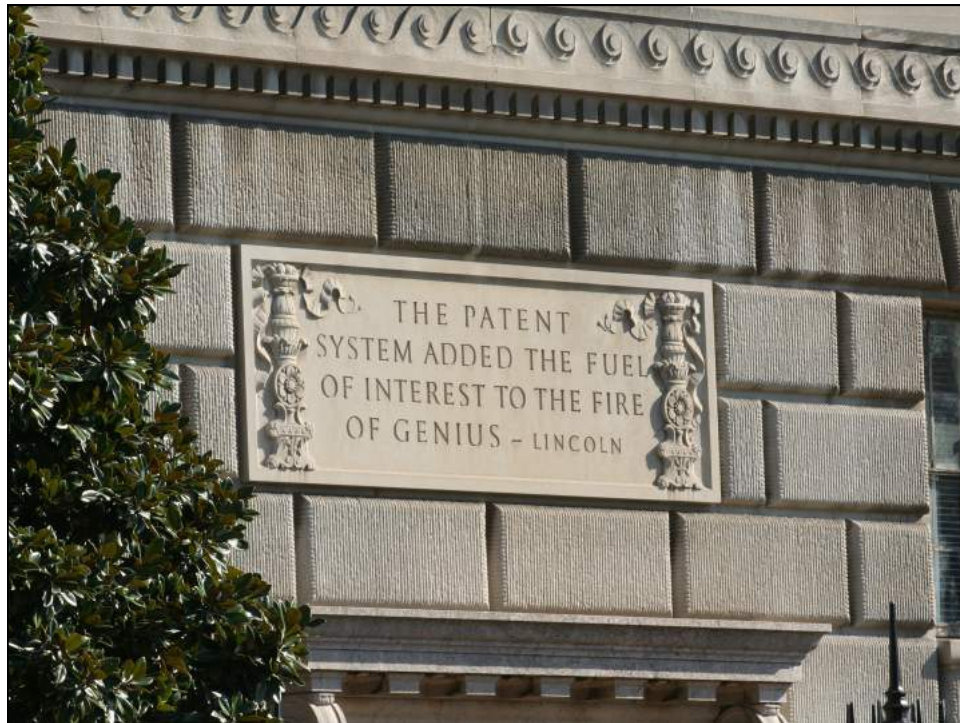
**What is the  
rationale for  
intellectual  
property?**



# The public goods problem







# Intellectual property licenses

# What is a license?

## Licenses, in general

### What is a license?

- It is a permission or consent for the licensee to do something otherwise within the licensor's exclusive rights. ("Exclusive rights" mean the right to exclude others.)
- It is legally cognizable as an affirmative defense to an action for infringement or misappropriation based on some form of intellectual property (copyright, patent, trademark, trade secret, or right of publicity).



# Is a license a contract? What's the difference?

## Licenses & contracts

### Is a license a contract?

- Many courts say so.

**"A license is a contract."**

Global Communications, Inc. v. Directv, Inc., 4:12CV651-RH/CAS, 2013 WL 11325041, at \*2 (N.D. Fla. Aug. 21, 2013) (patent infringement case)

**"... a license is a contract ..."**

Datatreasury Corp. v. Wells Fargo & Co., 522 F.3d 1368, 1371 (Fed. Cir. 2008) (patent infringement case)

**"... a license is a contract ..."**

Foad Consulting Group, Inc. v. Azzalino, 270 F.3d 821, 828 (9th Cir. 2001)

But if a license were a contract, all sorts of strange things would come of that.

Consider Anne and Larry ...

- Examples from: Christopher M. Newman, *A License Is Not A "Contract Not to Sue": Disentangling Property and Contract in the Law of Copyright Licenses*, 98 Iowa L. Rev. 1101, 1103-09 (2013)

Some key, practical differences between licenses and contracts:

- Requirement of consideration
  - Contracts need consideration; licenses don't.
- Persons against whom enforcement may be sought
  - Contracts bind only the contracting parties; licenses are good against co-owners and later owners.
- Changed minds
  - Contract law abhors specific performance; a license, seems to endure as an affirmative defense despite claimed revocation.

"[P]racticing lawyers and judges already recognize on some level that a license is not simply a 'contract not to sue.' Yet many continue to pay lip service to this formulation, and it remains enshrined in the leading treatises on copyright and licensing. The result is that sometimes legal actors actually do fall back on the contract theory of license to analyze legal problems, often with inconsistent and counterproductive results."

- Newman, 98 Iowa L. Rev. 1101, 1106 (2013)

## Contractual remedies vs. IP remedies

#### Remedies differences

Contract A: "I license the software to you for one year. You agree to pay me \$1,000 per month for 12 months."

Contract B: "You agree to pay me \$1,000 per month for 12 months. I license the software to you, conditioned upon the receipt of timely payments. If any payment is not made when due, the license ceases."

#### Remedies differences

If you stop payment under Contract A and keep making copies (or otherwise doing things within the exclusive privilege of copyright), I can sue you for breach of contract, but not copyright infringement.

If you stop payment under Contract B and keep making copies (or otherwise doing things within the exclusive privilege of copyright), then I can sue you for copyright infringement as well as breach of contract.

## Remedies include ...

©	Injunctions; restitution (of D's wrongful gains); statutory damages up to \$150K per infringement
Pat.	Injunctions; royalties; treble damages
TM	Injunctions; punitive damages; treble damages
Trade Secret	Injunctions; restitution (of D's wrongful gains); punitive damages; royalties
Right of Publicity	Injunctions; punitive damages

Licensing  
specifics for  
different  
forms of IP

### Copyright Licenses

- A copyright can be validly licensed on a non-exclusive basis by any of its co-owners
- A licensee need only obtain a license from just one co-owner to be protected from liability for infringement
- There is a duty to account among co-owners
  - i.e., co-owners must share licensing revenue

### Patent Licenses

- A patent can be validly licensed on a non-exclusive basis by any of its co-owners
- A licensee need only obtain a license from just one co-owner to be protected from liability for infringement
- There is no duty to account among co-owners

### Trademark Licenses

- Trademarks have only one owner, so licenses from co-owners is not an issue
- Trademarks cannot be the subject of "naked licensing," or the trademark is extinguished
- A naked license is one where the trademark owner does not retain control over the quality of the products sold under the mark

### Trade Secret Licenses

- A trade secret can be validly licensed
- The licensor must use and insist on reasonable diligence in keeping the secret a secret, and be successful in keeping the secret a secret, or else trade secret protection will vanish

# Some key points for keeping things straight

## Some key points

- There is no such thing as "intellectual property infringement."
- To be bring an action to exclude someone else from an intangible, the action must sound in copyright, patent, trademark, trade secret, or right of publicity.\*
  - \* with the possible exception of some extremely rare, idiosyncratic cases that apply to very particular circumstances, and even then doctrines may be found may turn out to be federally preempted.



Some key points

- There is no such thing as "title in information."
- Correspondingly, there is no such thing as "trespass to information."
- In the United States, information cannot be owned, as such.
- If you are going to sue someone for copying information, it will need to be done by way of a recognized intellectual property right, such as copyright or trade secret.

Some key points

- There is no such thing as "breach of license."
- If someone has acted beyond the scope of the license, then the licensor might have an action for infringement or misappropriation of some intellectual property right.

# Express and implied licenses

Express and implied

Licenses can be express (oral or written) or implied, and be perfectly valid.

# Open-source and sharing licenses



- Open source software licenses enforce sharing-forward of software and keeping code open for others to improve upon
- GPL license is primary example
- Android operating system is an example of open-source licensed software



## GPL

- GNU General Public License
- Allows anyone to use
- Allows anyone to make changes, but they must make the changed version available to the public
- Enforces sharing forward
- License behind Linux, Firefox, and much else, including much of the web's backend



Sharing licenses

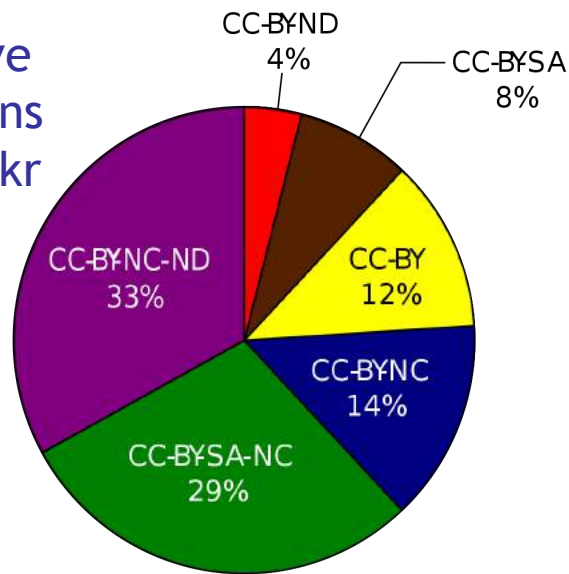
### Creative Commons licenses

- Like the GPL, but for entertainment media
- Photographs, text, music, but not software code
- Enforces sharing forward
- Available in different flavors for more sharing or less ...



- Attribution
- Non Commercial
- No Derivatives
- Share Alike

Creative  
Commons  
on Flickr



ALI/ULC  
attempts to  
create new  
law

- UCC Article 2B
- UCITA
- ALI's Principles of the Law of Software Contracts

#### UCC Article 2B:

- Active around 1996-1998
- From 2B's introduction:

"Article 2B deals with transactions in information; it focuses on transactions relating to the 'copyright industries.' This project lies at the heart of maintaining the UCC at the center of commercial contract law."
- Said that if passed in most states, 2B would have been controlling law for transactions encompassing 30% of the economy.

18	<b>Benefits and Positions in Draft Article 2B by Party</b>
19	<b>General Benefits</b>
20	+ creates balanced structure for electronic contracting
21	+ reduces uncertainty and non-uniformity of software and online contract law
22	+ provides contract law roadmap for converging industries with differing
23	traditions
24	+ confirms contract freedom in commercial transactions
25	+ innovates concept of mass market transaction that extends UCC consumer
26	protections to businesses
27	+ establishes strong protection encouraging dissemination of published
28	informational content
29	+ recognizes layered contract formation occurring over time
30	+ clarifies enforceability of standard forms in commercial deals
31	+ proposes solution for battle of forms
32	+ applies "material breach" concept corresponding to common law
33	+ sets standards relating to access and Internet contracts
34	+ establishes contract default rules for idea and content submission
35	+ adjusts statute of frauds to information transactions

1	+ provides ownership rules for outsourcing and development contracts
2	+ creates understandable implied warranty for commercial deals
3	+ outlines relationship between retailer, publisher and end user
4	+ refines standards for enforcement of liquidated damages rule
5	+ allows parties to contract for specific performance
6	+ provides standard interpretations for often litigated grant terms
7	
8	<b>Licensor Benefits</b>
9	+ establishes licensing framework consistent across <b>converging</b> industries
10	+ workable <b>choice of law</b> rules for Internet
11	+ fully enforceable choice of <b>forum</b> clause in commercial contracts
12	+ establishes guidance for enforceable <b>attribution procedure</b> in electronic
13	contracts
14	+ settles enforceability of <b>mass market licenses</b> subject to refusal term concept
15	+ creates method for contracting in <b>Internet</b> and similar contexts
16	+ excludes <b>consequential damages</b> for published informational content
17	+ establishes guidance on the meaning of license <b>grants</b>
18	+ establishes control and protections for licensors on <b>transferability</b> of a license
19	+ deals with effect on warranty of <b>modification</b> of code in a copy of a program
20	+ limits <b>infringement warranty</b> to knowledge but expands it to cover use
21	+ codifies contractual treatment of electronic <b>limiting or management devices</b>
22	+ reconciles inspection concepts with presence of vulnerable <b>confidential</b>
23	material
24	+ establishes guidance on procedures to <b>modify</b> on-going contracts
25	+ confirms that <b>exceeding</b> a license as a breach of contract
26	+ establishes standard on connection of <b>remedy</b> and consequential damages
27	limits



28	
29	Licensee Benefits
30	+ gives court a right to invalidate undisclosed <b>refusal terms</b> in mass market for
31	consumers and businesses
32	+ creates duty of reasonable care to avoid <b>viruses</b> in copies that cannot be waived
33	in mass market
34	+ enables <b>financing</b> licensee interest in a non-exclusive license without licensor
35	consent
36	+ creates refund right from two sources and procedural steps to give real option to
37	withdraw as a precondition for <b>creating a contract</b> in mass market
38	+ gives licensee a right of <b>quiet enjoyment</b>
39	+ codifies that <b>advertising</b> can create an express warranty
40	+ creates a warranty for <b>accuracy</b> of non-published informational content
41	+ creates implied <b>system integration</b> warranty
42	+ extends infringement warranty to a warranty that <b>use</b> does not infringe

#### ALI/ULC action

### UCC Article 2B's fate

- Opposed on grounds of being anti-consumer
- ALI pulled out
- Project abandoned
- ULC turned effort into UCITA

### UCITA:

- Uniform Computer Information Transactions Act
- Developed by ULC (Uniform Law Commission, then known as NCCUSL)
- Active efforts around 2000
- Passed only in Virginia and Maryland

### Some key UCITA provisions:

- Makes shrinkwrap/clickwrap terms enforceable
- Takes away resale rights under first-sale doctrine of copyright law
- Creates default warranties
- But allows those warranties to be overridden and excluded by the shrinkwrap/clickwrap license agreement

### Some key UCITA objections:

- Anti-consumer in making shrinkwrap/ clickwrap terms enforceable
- Anti-consumer in taking away resale rights under first-sale doctrine of copyright law
- Not helpful to consumers in creating default warranties, because those can be excluded by corporate software makers
- Poisonous to free, open-source software and unsophisticated small software developers, because warranties could not or would not be excluded

### UCITA bomb shelters

- Iowa passed a law prohibiting enforcement of UCITA through a choice-of-law provision against Iowa persons or businesses
- Other states followed suit, including North Carolina, West Virginia, and Vermont.

## ALI's Principles of the Law of Software Contracts:

- Introduced in 2009
- Created in consultation with the Business Software Alliance, among others.
  - But some major software companies were concerned about a provision regarding non-excludable warranties
- Does not seem to have had much of an effect, if any at all, on the law as understood by courts.

**A question  
to work on ...**

Big Lucky Energy Partners LLP (Big Lucky) purchased a ZX-5000 oil drilling rig for \$5,000,000 from Hexetron Petroleum Equipment Corp. (Hexetron). The rig is especially valuable to Big Lucky because it is capable of operating in what is known as "triple-double tamp-down mode," which increases drilling efficiency by over 300%. The signed, written sales agreement contains the following provision:

Hexetron warrants that operation of the rig (including, without limitation, operation in what is known as "triple-double tamp-down mode") will not infringe on any patent held by Hexetron or any third party.

Hexetron hereby indemnifies and holds harmless Big Lucky from any claim, allegation, demand, or judgment of patent infringement.

The sales agreement says nothing else regarding patents or licenses.

After the sale, Hexetron received a letter from Starline Intellectual Ventures (Starline), claiming that operation of the rig in triple-double tamp-down mode infringes the 8,776,655 patent, of which Starline is a co-owner. The letter offers to license the '655 patent to Big Lucky for \$2,000,000 per year, which would dissipate nearly all the increased profit Big Lucky stood to make through its purchase and use of the ZX-5000 rig.

On a hunch, an executive with Big Lucky called up the other co-owner of the '655 patent, Zane Carson. Carson, who is friends with one of the investors in Big Lucky and who is angry at Starline, immediately said he was licensing the patent to Big Lucky, orally, over the phone, and on a gratis basis – that is, without any payment or compensation whatsoever.

Outside patent counsel has determined that the claim of patent infringement is justified and that the patent is valid. ... You represent Big Lucky. Given what you know, which of the following is the best advice for Big Lucky?

- (A) "You do not need a license to operate the ZX-5000 in triple-double tamp-down mode. Because Hexetron fully indemnified Big Lucky for operation of the rig in this mode, no patent owners have rights against Big Lucky."
- (B) "You do not need a license to operate the ZX-5000 in triple-double tamp-down mode, because such a license is implied in the sale of the rig, unless disclaimed."
- (C) "You need a license to operate the ZX-5000 in triple-double tamp-down mode. You should offer to pay Carson a fee for the patent license, because like any other contract, a license is generally not valid unless supported by consideration. If Carson will not do a license for consideration, then you will need to license through Starline, although you could try to bargain down the fee first. Once you get a license, whether through Carson or Starline, you will be protected in case of a suit for breach of license."
- (D) "You need a license to operate the ZX-5000 in triple-double tamp-down mode. You should ask Carson to put this purported gratis license in writing. While it is generally the case that licenses, like other contracts, need consideration to be binding, there is under the UCC an exception for written licenses evidenced by a writing signed by the licensor. If you get that, you will be protected in case of a suit for breach of license."
- (E) "You need a license to operate the ZX-5000 in triple-double tamp-down mode, but thanks to Carson, you've got one. You should write him a thank-you letter, which will help serve as evidence of the license should this ever end up in litigation. But, strictly speaking, you don't need a writing for the license to have legal validity."

- (A) "You do not need a license to operate the ZX-5000 in triple-double tamp-down mode. Because Hexetron fully indemnified Big Lucky for operation of the rig in this mode, no patent owners have rights against Big Lucky."
- (B) "You do not need a license to operate the ZX-5000 in triple-double tamp-down mode, because such a license is implied in the sale of the rig, unless disclaimed."
- (C) "You need a license to operate the ZX-5000 in triple-double tamp-down mode. You should offer to pay Carson a fee for the patent license, because like any other contract, a license is generally not valid unless supported by consideration. If Carson will not do a license for consideration, then you will need to license through Starline, although you could try to bargain down the fee first. Once you get a license, whether through Carson or Starline, you will be protected in case of a suit for breach of license."
- (D) "You need a license to operate the ZX-5000 in triple-double tamp-down mode. You should ask Carson to put this purported gratis license in writing. While it is generally the case that licenses, like other contracts, need consideration to be binding, there is under the UCC an exception for written licenses evidenced by a writing signed by the licensor. If you get that, you will be protected in case of a suit for breach of license."
- (E) "You need a license to operate the ZX-5000 in triple-double tamp-down mode, but thanks to Carson, you've got one. You should write him a thank-you letter, which will help serve as evidence of the license should this ever end up in litigation. But, strictly speaking, you don't need a writing for the license to have legal validity."