Introduction

WHY STUDY IP TRANSACTIONS?

Intellectual property (IP) law – broadly consisting of patent, copyright, trademark, trade secret and a handful of other doctrinal areas – is a key topic in today's legal and business curriculum. IP issues motivate some of the largest transactions, lawsuits and governmental policies of our day, and an increasing number of lawyers around the world practice in this area. The U.S. Patent and Trademark Office has reported that in 2019, IP accounted for 41% of all domestic economic activity and that IP-intensive industries supplied 63 million jobs.

IP transactions cover a broad range of business arrangements among IP holders and users, including IP licensing, R&D, development, joint venture, distribution, publishing, agency, manufacturing, service and other agreements. Much of the IP work performed by in-house attorneys falls into the transactional category, and IP transactional knowledge is highly relevant to attorneys working at law firms, government agencies, academic institutions, nonprofit organizations and international bodies.

There are two traditional modes in which IP law is taught today: *prosecution* – the practice of obtaining patents and trademarks from the US Patent and Trademark Office and corresponding international offices – and *litigation* – legal disputes over the ownership, infringement and misappropriation of IP assets. This book covers the third major leg of the IP triangle: *transactions*. In today's legal education marketplace, an increasing number of schools are offering courses, seminars and clinics that address transactional IP issues. This book caters to those educational settings.

FORMAT OF THIS BOOK

In many ways, this book resembles a traditional case book of the variety used in law schools for more than a century to teach subjects ranging from property to evidence to civil procedure. Admittedly, it contains edited judicial opinions (more on this below), but it also differs from traditional case books in a few important ways. Each chapter contains several distinct types of pedagogical material, the purpose and intent of which are summarized below:

1. *Edited cases* – when Christopher Columbus Langdell, the Dean of Harvard Law School from 1870 to 1895, developed the case method of legal education, he did so in an effort to link legal education to the actual mechanism by which the common law develops – judicial decisions. Reading and interpreting cases, Langdell and law professors over the subsequent 150 years have asserted, inures students to the methods of judicial reasoning, prepares them to present their own cases to courts, and elucidates the rules and doctrines that constitute the warp and weft of the common law. Today, the case method is under attack from various

https://doi.org/10.1017/9781009049436.001 Published online by Cambridge University Press

quarters. Much of modern American law is statutory and administrative, not grounded in the common law, and in many fields, the number of cases that result in a published judicial opinion is vanishingly small. What's more, the growing corps of attorneys who deal primarily in contracts and transactions may never see the inside of a courtroom nor a person dressed in black robes during the course of a full and distinguished legal career. So why does a book that aspires to educate new transactional attorneys include so many cases?

The answer is simple. While the daily bread of the transactional attorney is the contract, a document rich in its own breed of linguistic legerdemain, contractual clauses do not exist in a vacuum. That is, with apologies to Donne, no contract is an island. Rather, the words of a contract represent merely the tip of an interpretive iceberg. Especially in the world of IP, every clause of a contractual arrangement is shaped by the scope and nature of the underlying rights, whether statutory or common law, as well as a host of limiting doctrines and a bevy of commercial and business practices. The attorney who seeks to draft and negotiate anything but the simplest IP agreement without a deep understanding of the underlying law and business context risks nothing short of legal malpractice. And, regrettably, examples of such missteps abound – patent licenses that violate the rule against post-expiration royalties, trademark licenses that fail to include adequate quality control provisions, copyright transfers that do not account for profits owed to co-owners, contractual provisions that are impermissibly conditioned on the filing of a bankruptcy action, agreements that illegally divide markets or fix prices, employee policies that assume that a works-made-for-hire doctrine exists under patent law, or that it applies to copyrighted software. These and hundreds of other pitfalls and traps for the unwary await the attorney who assumes that a contract is a contract is a contract, and that the so-called "four corners rule" ensures that the words printed on the page are all that one needs to understand the subject of an IP agreement.

It is for this reason that a large number of judicial decisions, as well as agency opinions and review letters, are included and discussed in this book. Ignore them at your peril!

2. *Statutory and regulatory text* – in addition to cases, IP law is, in many cases, a creature of statute. The Patent Act, Copyright Act and Lanham Act establish the basic contours of three of the major forms of IP in the United States, and other major statutes – the Bankruptcy Code, the Sherman Act, the Uniform Commercial Code – are routinely invoked. Thus, relevant statutory text is included throughout the book.
3. *Contractual language examples* – despite my strong plug for cases and statutes above, the crux of any course in IP licensing and transactions is the contractual language that instantiates the parties' agreement. Students should become familiar with recognized forms of most common contractual provisions, which will build up their own contractual vocabularies to a degree that will eventually enable them to draft language for unfamiliar and bespoke situations. This book includes examples of contractual language throughout each chapter, along with drafting notes intended to elucidate subtleties and inflection points where negotiation can occur. In addition to these excerpted selections, an online supplement includes several full-length sample contracts of different types, which can be used for further study or exercises.
4. *Notes and questions* – the primary reading material in each chapter is followed by a set of notes and questions. These are intended to draw out the main points of the reading material and to prompt students to consider their implications and to extend them to other situations. Responses may be assigned to students as homework and/or discussed in class.

5. *Problems* – each chapter also contains one or more hypothetical "Problems" that require students to apply the concepts learned in the chapter to a simulated client scenario, usually by drafting appropriate contractual language based on the examples contained in the chapter.

ORGANIZATION AND TOPICS

As indicated by the table of contents, this book consists of four principal parts. Part I covers materials preliminary to the negotiation of an IP transaction. Chapter 1 covers the business assumptions and goals behind IP transactions; Chapter 2 covers issues surrounding the assignment and ownership of IP, including the issues surrounding joint ownership; Chapter 3 covers some of the theoretical issues surrounding the nature of an IP "license" and how it compares to similar rights of usage in the context of real and personal property; Chapter 4 deals with implied licenses that are recognized by the law absent a written agreement; and Chapter 5 address precursors to the drafting and negotiation of an IP agreement, including term sheets, letters of intent and confidentially agreements.

Part II covers the "building block" components of IP licensing and similar agreements. The principal components of these agreements are divided among eight chapters that progress in logical order from the "front" to the "back" of a typical agreement, starting with the scope of the license grant itself (Chapters 6 and 7), then moving to the financial clauses defining up-front payments, royalties, milestones, cost recovery and related issues such as most-favored clauses and royalty audits (Chapter 8), then addressing clauses allocating IP ownership, management and control (Chapter 9), and finally addressing more general, but critical, agreement terms such as representations, warranties and indemnification (Chapter 10), litigation-related clauses such as IP enforcement, settlement, choice of law and alternative dispute resolution (Chapter 11), term, breach and termination, including statutory termination provisions (Chapter 12) and a number of "boilerplate" clauses that can have significant ramifications for licensing transactions (force majeure, assignment, waiver, merger, etc.) (Chapter 13). It is intended that these chapters form the core of any course utilizing the book, and it is recommended that instructors cover each of these chapters.

Part III then turns to a number of industry-specific licensing topics that are intended for use by instructors with an interest in the topics, but are not required for every course in IP licensing. Chapter 14 covers academic technology transfer – the licensing of inventions and works developed by academic institutions, often with federal funding and concomitant restrictions and limitations. Significant attention is given to the Bayh–Dole Act of 1980, which modernized university technology transfer and has given rise to debates over government march-in rights and other issues. Chapter 15 addresses special topics relevant to the licensing of trademarks and brands, including franchise agreements, quality control requirements and trademark marking and usage requirements. Chapter 16 covers the complex world of music licensing, including the bifurcated copyright status of musical compositions and performances, the US compulsory licenses for mechanical reproduction, the ASCAP and BMI performing rights organizations, issues arising from music streaming and sampling, and more. Chapter 17 addresses the evolution of consumer software and other licenses, from shrinkwrap packaging to electronic click-through agreements to online browsewrap agreements, discussing their enforceability, use and development. Chapter 18 turns to commercial software and database licensing with attention to issues surrounding reverse engineering, database protection, software-as-a-service and the

https://doi.org/10.1017/9781009049436.001 Published online by Cambridge University Press

cloud. Chapter 19 addresses open source code software and other public licenses, such as the Creative Commons suite of online content licenses, as well as more recent pledges made by IP holders to support platform evangelization, standardization and social causes. Finally, Chapter 20 discusses the fraught issue of standards-essential patent licensing, focusing on IP disclosure obligations and commitments to license on fair, reasonable and nondiscriminatory (FRAND) terms.

Part IV turns from industry-specific topics to more advanced, but generally applicable, licensing topics. Again, instructors may choose to cover only a subset of these issues in a given course, depending on their focus and interest. Chapter 21 addresses bankruptcy law issues that affect IP licensing, including the automatic stay of actions, the bar on *ipso facto* clauses and the rejection of executory contracts and Section 365(n) of the Bankruptcy Act. Chapter 22 covers the doctrines of licensee and assignee estoppel, as well as the evolving enforceability of no-challenge clauses in licensing agreements. Chapter 23 addresses the first sale and exhaustion doctrines in copyright, trademark and patent law, including issues surrounding gray market imports. Chapter 24 covers IP misuse doctrines including the impermissible expansion of temporal and geographic scope, the 1988 Patent Misuse Reform Act, issues surrounding package licensing and noncompetition restrictions. Chapter 25 presents a broad overview of antitrust issues germane to IP licensing transactions, including the DOJ–FTC Guidelines and Supreme Court precedent relating to market allocation, tying, market power and monopolization, with specific attention to so-called reverse payment settlements in the pharmaceutical industry and antitrust issues arising in technical standards development. Chapter 26 concludes with an overview of IP pooling arrangements, with a focus on the commercial and antitrust issues that they present.

As noted above, an online supplement (https://iptransactions.org) contains sample agreements that illustrate the concepts discussed throughout the text.

LIMITATIONS: WHAT YOU WILL NOT FIND IN THIS BOOK

This book is intended to provide students with an overview of the issues and considerations relevant to IP licensing today. It is not a comprehensive treatise, and it does not cover every issue or contractual clause in this broad and rapidly evolving field. Readers who want a more in-depth treatment of any particular issue are referred to several excellent treatises on IP licensing that are available online and in most academic libraries. These resources are cited throughout this book.

The focus of this book is US law. While it does address a few non-US issues, they are mentioned inasmuch as they may be useful to US practitioners negotiating international licensing agreements. This book should not be viewed as an authoritative source for non-US law.

This book assumes that the reader is familiar with the basic modes of IP protection in the US – patents, copyrights, trademarks and trade secrets. It does not offer a primer on these subjects, and readers wishing to learn more about the basic forms of IP protection are referred to a wealth of online and published materials on these topics.

The primary materials contained in this book (cases, articles, statutes) are edited for readability and to accommodate space constraints. Most internal citations, footnotes and references have been omitted. Thus, the text of these materials should not be viewed as definitive and should not be quoted without reference to the original source material.

CAREFUL DRAFTING PAYS

Every transactional lawyer dreads the day that one of his or her agreements is litigated, when he or she is abruptly transformed from a learned advisor to a fact witness. Unfortunately, this scenario recurs all too often in today's litigious environment. Believe me, when you are deposed by litigation counsel about the intended meaning of some obscure contractual clause that you drafted at 2 a.m. and then negotiated while on a cell phone in the back seat of a taxi cab, you will thank yourself for having drafted an agreement that is clear, unambiguous and reflective of your client's intent.

Likewise, there are few professional achievements as gratifying to the transactional lawyer as reading praise for one's work from the bench. In short, this is the standard that you should strive for in any agreement that you draft:

> There is simply nothing ambiguous about the Settlement Agreement. It is a well written, fully-integrated contract carefully molded on the contours of the 1993 License Agreement, which explicitly defined all essential terms while laying out the exact scope of the license and the parties' respective rights and obligations.[1]

It is a goal of this book to give you the tools – theoretical, doctrinal and practical – that are necessary to meet this standard in every agreement that you draft and negotiate. Happy drafting!

[1] *Cozza v. Network Assocs.*, 2005 U.S. Dist. LEXIS 11263 at *11 (D. Mass. 2005).

https://doi.org/10.1017/9781009049436.001 Published online by Cambridge University Press