
Licensing
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1983

Licensing Law Handbook

Edited by Brian G. Brunsvold
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1983 Licensing Law Handbook

The Clark Boardman

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Edited by Brian G. Brunsvold

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Licensing

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Preface

1983 Licensing Law Handbook is the fifth volume in a projected annual series. In 1979, it was felt that a periodic collection of recent articles dealing with current developments and problems in the law and business of licensing would be of benefit to licensing professionals. The result was the publication of *1979 Licensing Law Handbook*.

Like the predecessor volumes, *1983 Licensing Law Handbook* succinctly alerts readers to new directions, their implications, and provides suggestions as to how practitioners and licensing professionals can cope with the wide stream of new developments in the law and business of licensing. *1983 Licensing Law Handbook* has been designed so that it may be conveniently carried in a briefcase, or circulated among professionals in an office. Litigators will find it a handy means of verifying points in the courtroom.

All articles which appear in this collection are previously unpublished and authored for inclusion in *1983 Licensing Law Handbook*. The following topics are highlighted: Product licensing; recent developments at the patent licensing/antitrust interface; developing markets abroad through technology transfer abroad during an economic slowdown; antitrust issues relating to research joint ventures, cross-licenses, and patent interchange agreements; licensing and reexamination; process licensing; licensing in the EEC; licensing computer programs.

It is anticipated that a new handbook will be published annually to provide, in time, a library of current developments in the licensing law field. This volume should be retained as a reference source.

The Publisher

Table of Contents

Chapter 1

Recent Developments at the Patent Licensing / Antitrust Interface Brian G. Brunsvold and John F. Hornick

§1.01	Intellectual Bases for the Recent Developments	1
[1]	Introduction	1
[2]	Per se antitrust violations: nine no-no's of patent licensing	3
[a]	Per se violations defined	3
[b]	Development of the nine no-no's	4
[3]	The Antitrust Division, patents, and the nine no-no's.....	5
[4]	The federal courts, patents, and the nine no-no's.....	12
[5]	Public policy at the patent/antitrust interface	13
[6]	Patent misuse and the antitrust laws	15
[7]	Misuse and the competitive process	17
§1.02	Per Se Violations According to Present Case Law ..	21
[1]	Tie-ins	21
[a]	Definition and requirements	21
[b]	The origins of tie-in illegality	23
[c]	Antitrust Division view of the early cases	26
[d]	Antitrust Division rejection of the per se standard for tie-ins	30
[e]	The courts and tie-ins.....	31
[f]	The <i>Dawson Chemical</i> decision	31
[2]	Products of process patents	34
[3]	Tie-outs	36
[4]	Resale restrictions	37
[5]	Royalty base considerations.....	38
[6]	Mandatory package licensing.....	39
§1.03	Present Antitrust Division Attitude Toward	

Licensing

Provisions It Previously Urged to Be Per Se	
Violations	40
[1] Price fixing	40
[2] Licensee veto power	42
[3] Exclusive grant-backs	43
§1.04 What Remains After the No-No's?	44

Chapter 2

Developing Markets Abroad Through Technology Transfer	
During an Economic Slowdown John A.B. Leask	47

Chapter 3

Product Licensing Vance A. Smith

PART I Timing of the Licensing Effort: an Outline	
§3.01 First Step Is To Become Familiar with the Business Portfolio and Long-Term Strategies	71
§3.02 Timing in Mature Technology Licensing.....	72
§3.03 Timing in Developing Technologies	73
PART II Pricing, Negotiation, and Related Agreement Terms	
§3.04 Introduction.....	76
§3.05 Example of a Strategy.....	76
§3.06 Some Other Strategic Factors.....	86
[1] Resources and time limitations	86
[2] Dominant buyer	87
[3] New and closed market strategies.....	87
§3.07 Some Major Factors and Terms Influencing Negotiations and Price	88
[1] Cost of R&D	88
[2] Anticipated profits of licensee	88
[a] Lump sum payments.....	90
[b] Front end payments / disclosure fees vis-à-vis running royalties	90
[3] Exclusivity and territory	91
[4] Minimums.....	91

Table of Contents

[5]	Sales level	91
[6]	Associated / affiliated companies	92
[7]	Other terms that may bear on value.....	92
[a]	Most favored nation clauses	92
[b]	“Component system”	93
[c]	Field of use	93
[d]	Audits / records	93
PART III Subsidiary Licensing of Products		
§3.08	Introduction.....	93
§3.09	Tax Aspects	94
[1]	Ordinary income treatment	96
[2]	U.S. foreign tax credits and tax treaties	96
[a]	Tax credits.....	96
[b]	Tax treaties	98
[c]	Government restrictions	98
[d]	Licensing between subsidiaries	99
[e]	Shared costs.....	101

Chapter 4

Antitrust Issues Relating to Research Joint Ventures, Cross-Licenses, and Patent Interchange Agreements Brian G. Brunsvold

§4.01	Introduction.....	105
§4.02	Research Joint Ventures	106
[1]	Statutory criteria for legality of research joint ventures.....	106
[a]	Analysis under Section 7 of the Clayton Act	106
[b]	Application of Section 7 to a joint manufacturing or service venture.....	108
[c]	Analysis under Section 1 of the Sherman Act	110
[d]	Application of Section 1	112
[2]	The Antitrust Guide concerning research joint ventures	115
§4.03	Cross-Licenses and Patent Interchange Agreements	117

Licensing

[1]	Use of defined terms aids analysis.....	117
[2]	Patent infringement agreements—the tests for legality.....	118
[3]	Industrywide patent interchange agreements ..	122
§4.04	Summary	123

Chapter 5

Licensing and Reexamination Arthur S. Garrett and E. Robert Yoches

§5.01	Introduction.....	125
§5.02	Rules for Reexamination.....	126
[1]	Requirements of the request	126
[2]	Who may file	127
[3]	Determination of the request.....	127
[4]	Preliminary statements.....	128
[5]	Examination	129
[6]	Effect of reexamination	131
§5.03	Effect of Reexamination on Licensor and Licensees	132
§5.04	Reexamination Before Licensing	134
§5.05	License Provisions Regarding Reexamination	136
§5.06	Role of Reexamination During the Term of the License	138
§5.07	Conclusion	139

Chapter 6

Five Important Clauses: A Practical Guide Kenneth E. Payne and Brian G. Brunsvold

§6.01	Introduction.....	141
§6.02	Most Favored Licensee Clause.....	141
[1]	Impact of an infringement.....	143
[2]	Standards for a “more favorable” license	145
[3]	Notice to the licensee.....	148
[4]	Sample clause	149
§6.03	Indemnity Clause.....	151

Table of Contents

	[1] Restrictions on liability	152
	[2] Sample clause	153
§6.04	Third Party Infringement	154
	[1] Nonexclusive license.....	155
	[2] Exclusive license.....	156
	[3] Sample clause	159
§6.05	The Best Efforts Clause	159
	[1] Sample clause	165
§6.06	The Arbitration Clause	167
	[1] Sample clause	173
§6.07	Conclusion	173

Chapter 7

Process Licensing David S. Urey

§7.01	Why License?.....	175
	[1] Licensor's viewpoint.....	175
	[2] Licensee's viewpoint	176
§7.02	When to License	176
	[1] Capability of licensor	176
	[2] Life expectancy of technology	177
	[3] Development curve.....	178
	[4] Licensee expectations	178
	[5] Liability and reputation	179
	[6] New technology vs. new product	180
	[7] Industry patterns	181
	[8] Foreign choice	181
	[9] Other factors.....	181
	[10] Conclusion	182
§7.03	The Licensing Team	182
§7.04	Relationship with the Engineering Contractor	183
	[1] Role of the engineering contractor	184
	[2] Advantages of the licensing relationship.....	185
	[3] Disadvantages of the licensing relationship	186
§7.05	Royalty Considerations	188
	[1] Introduction	188

Licensing

	[2] Previous royalty rate charged by licensor for similar technology	191
	[3] Industry rates	192
	[4] Royalty as a function of profitability or savings to licensee	192
	[5] Other factors.....	193
	[6] Royalty based on plant design capacity	195
	[7] Lump sum vs. itemized payments.....	197
	[a] Licensor's viewpoint	197
	[b] Licensee's viewpoint	199
	[8] Paid-up vs. running royalties.....	200
	[9] Conclusion	204
§7.06	Clause Considerations	205
	[1] Improvements—grant-forward/grant-back	205
	[a] Scope	207
	[b] Depth and manner	209
	[c] Timing	210
	[d] Duration	210
	[2] Techniques to maximize profits where term of agreement is limited by law or regulation ..	211

Chapter 8

Licensing in the EEC—The Practical Effects of the Legal Constraints and Their Effect on the Transfer of Technology	
John A.B. Leask	215

Chapter 9

Licensing Computer Programs: A Different Script for Each Audience	Brian G. Brunsvold and Robert J. Gaybrick	
§9.01	Introduction.....	225
§9.02	The Respective Interests of the Licensor and Licensee of Computer Programs	226
§9.03	Licensor Concerns in a Nutshell	227
	[1] Subject matter.....	227
	[2] Performance	227

Table of Contents

	[3] Liability.....	228
§9.04	Licensee Concerns in a Nutshell	228
	[1] System specifications	228
	[2] Performance	229
	[3] Continuity of use	229
	[4] Confidentiality	229
§9.05	Sample License Provisions	229
	[1] Identification of licensed subject matter	230
	[2] User definition	232
	[3] Market subdivision	233
	[4] Scope of authorized use	234
	[5] Special provisions regarding DP service suppliers and DP professionals	236
	[6] Title, trade secrets, proprietary rights, and copyright	238
	[7] Delivery, acceptance, and warranty	240
	[8] Liability for modifications of licensed materials	245
	[9] License term and termination	246
	[10] Sublicenses	248
§9.06	Selective Licensing of Computer Software Only to Purchasers of Hardware or Other Software—An Antitrust Problem?	249
	[1] Cross-motions for summary judgment denied	251
	[2] The legal issue at trial	252
	[3] The jury verdict	253
	[4] The court's decision	254
	[5] Copyrighted software and trade secrets as barriers to entry	255
§9.07	Conclusion	259
Index		261

Chapter 1

Recent Developments at the Patent Licensing/Antitrust Interface

BRIAN G. BRUNSVOLD AND JOHN F. HORNICK

§ 1.01 Intellectual Bases for the Recent Developments

[1] Introduction

For many years U.S. patent licensing practitioners have been forced to work within the confines of a patent system that has been viewed with some hostility by both the federal courts and the Antitrust Division of the U.S. Department of Justice. The courts consistently issued rulings that narrowed the exploitation options available to a patent owner, and the Antitrust Division promulgated a list of nine patent licensing restrictions which it considered to be *per se* violations of the U.S. antitrust laws.

Recently, however, a shift has occurred in judicial and administrative attitudes toward both the patent system and the relationship between that system and the antitrust laws. Several pro-patent decisions by the courts and a general renouncement by the Antitrust Division of its list of the nine *per se* illegal restrictions (commonly known as the nine no-no's of patent licensing) evidence this general pro-patent shift by the arbiters of antitrust legality.

In extremely oversimplified terms, the changes wrought by the courts in U.S. antitrust enforcement case law amount to a general relaxation of antitrust hostility toward nonprice vertical patent licensing restrictions. This change in judicial attitude toward patents and the exclusive legal rights embodied therein, and toward patent licensing (which is discussed in greater detail, *infra*), re-

sults from a more sophisticated analysis of economics, competition, the benefits of technology to society, and the consequent need to look closely at complex modern business situations involving patents. The courts' current approach is to rely upon analysis of economic and competitive effects rather than upon rigid rules which may actually work contrary to the policy considerations that the patent and antitrust laws are designed to promote.

A general relaxation of the Antitrust Division's hostility toward vertical patent licensing restrictions also has occurred, although horizontal patent licensing restrictions generally remain exposed to rigid rules of per se illegality. Developments in the field of economics began to affect the application of the antitrust laws in the late 1970s. Thus, the economic theories now being promoted by the Antitrust Division have been known in intellectual circles for years. However, the campaign for the U.S. Presidential election of 1980 brought many of these ideas to the forefront. The development of the current attitude of the Antitrust Division toward the patent/antitrust interface is discussed at length in § 1.01[3], *infra*.

Although recent changes in antitrust enforcement law and policy by the courts and the Antitrust Division, respectively, are favorable to the patent licensing practitioner, these changes create legal uncertainty. The positions of the Antitrust Division seem unstable at first glance because of the politically dependent nature of the Division's leadership. Consequently, this article will focus not only on the current state of the antitrust laws as they relate to patent licensing, but will also attempt to assess the stability of the current antitrust enforcement attitudes of the federal courts and the Antitrust Division. This article presents and examines thoroughly the development and intellectual basis of current judicial and Antitrust Division attitudes toward patents and patent licensing, and the interrelationships between patent licensing, the U.S. Antitrust Laws, and the doctrine of patent misuse.

[2] Per se antitrust violations: nine no-no's of patent licensing

[a] Per se violations defined

The classic statement of the principle and rationale of per se illegality is found in *Northern Pacific Railway Co. v. United States*, 356 U.S. 1 (1958). There the U.S. Supreme Court firmly established a category of Sherman § 1 antitrust violations which, because of their “pernicious effect on competition and lack of any redeeming virtue, are conclusively presumed to be unreasonable,” and therefore are deemed to be “illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use.” *Id.* at 5.

The Court justified creation of the category of per se unreasonable practices on the grounds that per se treatment:

not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable—an inquiry so often wholly fruitless when undertaken.

Id.

At the root of the decision was an effort to further “the policy unequivocally laid down by the Act,” that is, the policy of promoting and preserving free and unfettered competition. *Id.* at 4. Thus, since the Court was of the opinion that some practices—such as the nonpatent tying arrangement with which it was concerned—“inevitably” curb competition and automatically “deny competitors free access to the market for the tied product,” it condemned tying arrangements as per se antitrust violations. *Id.* at 6.

Other practices had been declared to be unreasonable per se prior to the decision in *Northern Pacific*, but it was in *Northern Pacific* that the U.S. Supreme Court first clearly delineated the category of per se unreasonable practices. Thus, *Northern Pacific* is the leading case propounding the per se principle.