

ECKSTROM'S

LICENSING IN
FOREIGN AND
DOMESTIC
OPERATIONS

SZCZEPANSKI

Eckstrom's Licensing in Foreign and Domestic Operations

Updated by David M. Epstein

Volume 2



A THOMSON COMPANY

(Release #61, 3/2002)

Copyright 1972, 1973 by Clark Boardman Company, Ltd. and Sage Hill Publishers, Inc.

Copyright 1974, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990 by Clark Boardman Company, Ltd.

Copyright 1991, 1992, 1993, 1994, 1995 Clark Boardman Callaghan, a division of Thomson Legal Publishing, Inc.

Copyright 1996, 1997 Clark Boardman Callaghan, a division of Thomson Information Services, Inc.

Copyright 1997, 1998, 1999, 2000, 2001, 2002 West Group. All rights reserved.

Release #61, 3/2002

West Group has created this publication to provide you with accurate and authoritative information concerning the subject matter covered. However, this publication was not necessarily prepared by persons licensed to practice law in a particular jurisdiction. West Group is not engaged in rendering legal or other professional advice, and this publication is not a substitute for the advice of an attorney. If you require legal or other expert advice, you should seek the services of a competent attorney or other professional.

Library of Congress Card No. 58-13380
ISBN 0-87632-075-2

Summary of Contents

Volume 1

- Chapter 1 Basic Considerations
- Chapter 2 Contract Law Aspects of Licensing
- Chapter 3 Structuring of License Agreements
- Chapter 4 Intellectual Property Rights Based on Federal Statutes
- Chapter 5 Know-How and Trade Secrets Rights
- Chapter 6 Adversarial Proceeding's Between Licensors and Licensees
- Chapter 7 Commercial Arbitration and Other Alternative Dispute Resolution Proceedings
- Chapter 8 Prohibited Licensing Practices

Volume 2

- Chapter 9 Federal Taxation of Licensing Transactions
- Chapter 10 Effect of Bankruptcy on Licensing
- Chapter 11 Licensing by Universities
- Chapter 12 Transfer of Computer Technology
- Chapter 13 Licensing of Biotechnology
- Chapter 14 Licensing of Technology Funded or Owned by the U.S. Government
- Chapter 15 Taxation of Licensing Income Derived Internationally
- Chapter 16 Equipment Leasing in Licensing Operations
- Chapter 17 Technology Transfer Through Joint Ventures
- Chapter 17A Franchising

Volume 3

- Chapter 18 Licensing and Antitrust in the European Communities
- Chapter 19 Licensing Operations in France
- Chapter 20 Licensing and the Antitrust Laws in Austria and Switzerland
- Chapter 21 Licensing Operations in Canada
- Chapter 22 Licensing in England

Chapter 23	Licensing Operations in Germany
Chapter 24	[Reserved]
Chapter 25	Licensing Operations in Australia
Chapter 26	Licensing Operations in Mexico
Chapter 27	Licensing Operations in the People's Republic of China
Chapter 28	Licensing Operations in Hong Kong
Chapter 29	Licensing in Brazil

Volume 3A

Chapter 30	Argentine Law on Transfer of Technology
Chapter 31	Licensing Operations in Japan
Chapter 32	Licensing Operations in South Korea
Chapter 33	[Reserved]
Chapter 34	Licensing Operations in the Philippines
Chapter 35	Licensing in Portugal
Chapter 36	Licensing Operations in Peru
Chapter 37	Licensing Operations in Colombia
Chapter 38	Licensing Operations in Spain
Chapter 39	Licensing Operations in Nigeria
Chapter 40	Licensing Operations in India
Chapter 41	Licensing Operations in Poland
Chapter 42	Licensing Operations in Venezuela
Chapter 43	Licensing Operations in Ecuador
Chapter 44	Licensing Operations in Indonesia
Chapter 45	Licensing Operations in Malaysia
Chapter 46	Licensing Operations in New Zealand
Chapter 47	Licensing Operations in Singapore
Chapter 48	Licensing Operations in Taiwan
Chapter 49	Licensing Operations in Thailand
Chapter 50	Licensing Operations in Hungary
Appendix 1	[Reserved]
Appendix 2	[Reserved]
Appendix 3	International Conventions
Appendix 4	1984 Antitrust Merger Guidelines
Appendix 5	Vertical Restraints Guidelines—January 23, 1985
Appendix 6	Horizontal Merger Guidelines—by the National Association of Attorneys General (Issued March 10, 1987, Revised March 30, 1993)

Table of Cases
Index

Table of Contents

(This table of contents refers to section numbers. The top of each page in the main text carries a section reference.)

Volume 2

CHAPTER 9

Federal Taxation of Licensing Transactions

- § 9.01 Overview
 - [1] Taxable Transactions in Licensing
 - [2] Effect of the Tax Reform Act of 1986
 - [3] Continued Importance of the Capital Gains Classification
 - [a] Deductibility of License Payments
 - [b] Deductibility of Depreciation
 - [c] Recapture of Depreciation
 - [d] Possibility of a Future Differential Between Capital Gains and Ordinary Income
- § 9.02 Taxation of Proceeds to Transferor
 - [1] General Rule
 - [a] Elimination of Lower Capital Gains Rate
 - [2] Income Spreading
 - [a] Royalty Payments
 - [b] Installment Sales
 - [c] Open Transaction Doctrine
- § 9.03 Deductibility of Fees by Transferee
 - [1] General Rule
 - [2] For License of Intellectual Property Rights
 - [3] For Purchase of Patent Rights
 - [a] Payments for Purchase of a Patent and Certain Allowed Patent Applications
 - [i] General Rule
 - [ii] Basis for Depreciation
 - [iii] Depreciation Period
 - [iv] Allowable Methods of Depreciation

- [v] Adjustment of Depreciation
 - [b] Purchase of Patent Applications and Inventions
 - [4] For Purchase of Trade Secrets
 - [5] For Purchase of Trademark Rights
 - [6] For Purchase of Copyrights
- § 9.04 Requirements for Capital Gains Transactions
 - [1] Overview
 - [2] Capital Gains Under §§ 1221 and 1231
 - [a] Types of Property
 - [i] Capital Asset
 - [ii] Property Used in Trade or Business
 - [b] Holding Period
 - [i] Beginning of the Period for Inventions
 - [ii] Beginning of the Period for Transfers Subsequent to Date of Agreement
 - [c] Sale or Exchange
 - [3] Capital Gains Under § 1235
 - [a] Background of the Statute
 - [b] Applicable Property
 - [c] Transferor Must Be a Holder
 - [d] Transfer of All Substantial Rights
 - [i] Rights Which May Be Retained
 - [ii] Rights Which May Not Be Retained
 - [iii] Rights Which May Prevent Capital Gains Treatment
 - [e] Mode of Transfer
 - [f] Mode of Payment
- § 9.05 Limitations on Capital Gains Treatment
 - [1] Recapture of Depreciation
 - [2] Imputed Interest
- Appendix 9A Tax Treatment of Trade or Business Expenses (26 U.S.C.A. § 162)
- Appendix 9B Tax Treatment of Losses
 - (1) 26 U.S.C.A. § 165
 - (2) Regulations Under 26 U.S.C.A. § 165
- Appendix 9C Tax Treatment of Depreciation (26 U.S.C.A. § 167)
- Appendix 9D Tax Treatment of Transactions Between Related Parties (26 U.S.C.A. § 267)

TABLE OF CONTENTS

Appendix 9E	Installment Method of Accounting for Tax Purposes (26 U.S.C.A. § 453)
Appendix 9F	Tax Treatment of Interest on Deferred Payments (26 U.S.C.A. § 483)
Appendix 9G	Definition of a Capital Asset (26 U.S.C.A. § 1221)
Appendix 9H	Tax Treatment of Gains or Losses from the Sale, Exchange or Conversion of Business Property (26 U.S.C.A. § 1231)
Appendix 9I	Tax Treatment of the Sale or Exchange of Patents (1) 26 U.S.C.A. § 1235 (2) Regulations Under 26 U.S.C.A. § 1235
Appendix 9J	Tax Treatment of Gain from Disposition of Depreciable Property (1) 26 U.S.C.A. § 1245 (2) Regulations Under 26 U.S.C.A. § 1245
Appendix 9K	Tax Treatment of Transfer of Franchises, Trademarks and Trade Names (26 U.S.C.A. § 1253)
Appendix 9L	Super Royalty—26 U.S.C.A. § 482

CHAPTER 10

Effect of Bankruptcy on Licensing

§ 10.01	Introduction
	[1] Concept of Bankruptcy
	[2] Current Law
	[3] Application of Bankruptcy to Licensing Transactions
§ 10.02	An Overview of Bankruptcy Law
	[1] Procedures for Invoking Bankruptcy
	[2] Bankruptcy Legal Representative
	[3] Bankruptcy Estate
	[4] Executory Contracts
	[5] Creditors
	[a] Rights of Unsecured Licensor
	[i] Assumption of the License Agreement By Trustee
	[ii] Effect of Assumption By Trustee
	[iii] Effect of Rejection By Trustee
	[b] Unsecured Assignor
	[c] Secured Creditors—Dissolution
	[i] Secured Property Is Protected

- [ii] Security Interest Runs with the Property
 - [iii] Secured Party May Bid for Purchase of the Property and Set Off Against the Purchase Price the Secured Obligations
 - [d] Secured Creditors—Reorganization
 - [e] Unsecured Creditors—Reorganization
 - [f] Rights of Unsecured Licensee
 - [i] Trustee's Right to Reject An Executory Contract
 - [ii] Rejection of License Agreements
 - [iii] Election of Licensee Under § 365(n)
 - [6] Procedures for Becoming a Secured Creditor
 - [a] Creation of a Security Interest
 - [b] Attachment of Security Interest
 - [c] Perfection of Security Interest
 - [i] Filing Must Be Timely
 - [ii] Financing Statement Should Be Filed in the Patent and Trademark Office and in the State with Jurisdiction
 - [iii] State Law Determines the Proper Office for Filing Within the State
 - [iv] Filing Must Be Periodically Renewed
 - [7] Non-dischargeable Debts
- § 10.03 Protection of Licensor's and Licensee's Interests
- [1] Bankruptcy Clauses
 - [a] Ipso Facto Clause
 - [b] Default Clause
- Appendix 10A Licensee's Right of Election (11 U.S.C.A. §§ 101(35A) and 365(n))

CHAPTER 11

Licensing by Universities

- § 11.01 Licensing of University Research—An Overview
- [1] Concerns and Benefits
 - [a] University Concerns
 - [b] Potential Benefits to Universities
 - [c] Concerns of and Benefits to Industry
 - [d] Conflict with Public Interest

TABLE OF CONTENTS

- [2] Impetus for Licensing
 - [a] Federal Legislation
 - [b] Increased Value of Intellectual Property Rights
 - [c] Interest in Improving U.S. International Competitiveness
 - [d] Decreased Federal Funding
- [3] Current Approaches to Licensing
 - [a] Development of University Licensing Policies
- [4] Management of University Licensing
 - [a] Invention Management and Licensing Firm
 - [b] University Foundation
 - [c] University Technology Transfer Office
 - [d] Licensing Consortium
- § 11.02 Types of Intellectual Property to Consider for Licensing
 - [1] Inventions and Technical Information
 - [2] Works of Art
 - [3] Computer Programs
 - [4] University Names and Emblems
- § 11.03 Setting Up Programs for Licensing of Technology
 - [1] Evaluation of Licensing Rights
 - [2] Internal Licensing Office
 - [a] Staffing the Office
 - [b] Selection of Counsel
 - [c] Selection of Outside Licensing Brokers
- § 11.04 Incentives for Creation and Licensing of Intellectual Property Rights
 - [1] Income and Recognition for Inventors
 - [2] Grants and Recognition for Departments and Schools
 - [3] Rewards for the Licensing Office
- § 11.05 Licensing University Names and Emblems
 - [1] Overview
 - [2] Licensable Property Rights
 - [a] Trademark Theories of Protection
 - [i] Expansion of Traditional Protection
 - [ii] More Traditional Approach
 - [b] Unfair Competition
 - [c] Dilution
- § 11.06 Assessment of Current University Licensing
 - [1] Financial Criteria
 - [2] Non-Financial Criteria

- Appendix 11A Patent Rights in Inventions Made with Federal Assistance (35 U.S.C. §§ 200-212)
- Appendix 11B Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts, and Cooperative Agreements (37 C.F.R. ch. IV, pt. 401)
- Appendix 11C Report of Yale University Committee on Cooperative Research, Patents and Licensing (March 1984)
- Appendix 11D Patent Policies of Selected Universities
 - (1) University of Colorado (December 1977)
 - (2) University of Minnesota (October 10, 1986)
 - (3) Yale University (September 1989)
- Appendix 11E Copyright Policies of Selected Universities
 - (1) Cornell University (May 1990)
 - (2) Yale University (June 1990)
- Appendix 11F Documents of a Foundation Established to Manage the Rights to Properties Created Through University Research: University of Virginia Alumni Patent Foundation
 - (1) Foundation Charter
 - (2) Foundation Bylaws
 - (3) Foundation/University Agreement
 - (4) Sample Congratulatory Letter
 - (5) Invention Disclosure Forms
 - (6) Invention Status Sheet
 - (7) Invention Log
 - (8) Nondisclosure Agreement
 - (9) License Status Report
- Appendix 11G List of Selected University Licensing and Technology Transfer Offices
- Appendix 11H Detailed Procedures for Administration of an Internal University Patent Office

CHAPTER 12

Transfer of Computer Technology

- § 12.01 Types of Computer Technology
 - [1] An Overview
 - [2] Hardware
 - [a] Definition
 - [b] Input Devices

TABLE OF CONTENTS

	[c]	Central Processing Unit (CPU)
	[d]	Output Devices
	[e]	Secondary Storage Devices
	[f]	Primary Memory
	[g]	Buses
	[3]	Software
	[a]	Operating System Programs
	[b]	Application Programs
	[c]	Program Documentation
	[4]	Accessories
	[a]	Firmware
	[b]	Modems
§ 12.02		Protection of Proprietary Rights in Computer Technology
	[1]	An Overview
	[2]	Trade Secret Protection
	[a]	Historical Perspective
	[b]	Advantages and Disadvantages
	[c]	Requirements
	[3]	Utility Patent Protection
	[a]	Patentable Subject Matter
	[b]	Advantages and Disadvantages of Patent Protection
	[4]	Copyright Protection
	[a]	Ideas vs. Expression
	[b]	Utilitarian vs. Aesthetic Features
	[c]	Special Aspects of Copyright Protection for Computer Software
	[i]	Deposit Requirement
	[ii]	Requirements for Registration
	[iii]	Infringement Test
	[iv]	What Constitutes Copying?
	[v]	Right to Make Archival Copies
	[d]	Advantages and Disadvantages of Copyright Protection
	[5]	Mask Work Protection
	[6]	Design Patent Protection
	[7]	Trademark and Trade Dress Protection
	[8]	Contract Protection
	[9]	Technological Protection
	[a]	Restricting Access to the Source Code
	[b]	Copy-Protected Programs

- [c] Locking Programs/Destructive Programs
 - [10] Unfair Competition
- § 12.03 Law Governing Transfers of Computer Technology
 - [1] State vs. Federal
 - [2] Applicability of the Uniform Commercial Code (U.C.C.)
 - [a] Software as "Goods"
 - [b] Characterization of the Transaction
 - [3] Effects of Applying the U.C.C.
 - [a] Warranties and Disclaimers
 - [i] Title
 - [ii] Noninfringement
 - [iii] Express Warranties
 - [iv] Implied Warranty of Merchantability
 - [v] Implied Warranty of Fitness
 - [b] Recoverable Damages
 - [c] Formation of the Contract
 - [d] Writing Requirement
 - [e] Interpretation of the Contract
 - [f] Good Faith Requirement
 - [g] Prohibition Against Unconscionable Contracts
 - [4] Magnuson-Moss Warranty Act
 - [a] Aim and Applicability
 - [b] Requirements Imposed by the Law
 - [c] Sanctions for Noncompliance
- § 12.04 Common Computer Software Transactions
 - [1] An Overview
 - [2] Types of Transactions
 - [a] Acquisition from a Creator
 - [b] Negotiated Contracts with Users
 - [i] Reasons for License/Service Agreements
 - [ii] Escrow of Source Program
 - [c] Mass-Distributed Package Software
 - [i] Nature of Transactions
 - [ii] Effect of the First Sale Doctrine
 - [iii] Shrink Wrap Agreements
- Appendix 12A Magnuson-Moss Warranty Act of 1975, 15 U.S.C. §§ 2301-2312
- Appendix 12B Software License Agreement Between Vendor and User

TABLE OF CONTENTS

Appendix 12C	Software Sublicensing Agreement
Appendix 12D	Software Escrow Agreement
Appendix 12E	Software Deposit Agreement of Fidex Americas Corporation
Appendix 12F	One-to-Many Software Deposit Agreement
Appendix 12G	In the Matter of Improvement of Technical Management of Internet Names and Addresses (Federal Trade Commission)

CHAPTER 13

Licensing of Biotechnology

§ 13.01	Definitions
	[1] Biotechnology
	[2] Key Technical Terms
§ 13.02	An Overview
	[1] Special Problems of Biotechnology
	[2] Biotechnology Industries
§ 13.03	Government Regulation of Biotechnology
	[1] Regulation of Research and Development
	[2] Regulation of Products of Biotechnology
§ 13.04	An Overview of Protection by Intellectual Property Laws
§ 13.05	Protection Under Trade Secret Laws
	[1] Application and Inherent Problems
	[2] Problems with Submission to Government Agencies
§ 13.06	Protection Under Utility Patent Laws
	[1] Ethical and Moral Considerations
	[2] Patentable Subject Matter
	[3] Patents and the Commercialization of Biotechnology
	[4] Patentability
	[a] Product of Nature
	[b] Utility Requirement
	[c] Mere Purification
	[d] Enablement of Prior Art
	[5] Defining the Invention
	[a] Claim Specificity
	[b] Fingerprint Claims
	[c] Product-by-Process Claims
	[6] Sufficiency of Disclosure
	[a] Enablement Generally
	[b] Enablement and Predictability

- [c] Enablement—Depositing Microorganisms
 - [d] Best Mode
- [7] Drug Price Competition and Patent Term Restoration Act of 1984 (the Waxman-Hatch Amendments)
 - [a] Patent Extension
 - [b] Abbreviated New Drug Applications (ANDA)
- [8] Government Patent Policy Act of 1980
- § 13.07 Protection Under the Plant Patent Act
 - [1] Requirements of the PPA
 - [2] Determination of Infringement
- § 13.08 Protection Under Plant Variety Protection Act
 - [1] Historical Background
 - [2] The Statutory Scheme
 - [3] Utilization of PVPA Protection
 - [4] Enforcement
- § 13.09 Plant Utility Patent Protection
- § 13.10 Protection Under the Orphan Drug Act
- § 13.11 Protection Under Copyright Laws
- § 13.12 Protection Under Trademark Laws
- § 13.13 State Personal Property and Criminal Laws
- § 13.14 Protection Under International Patent Law
 - [1] GATT and NAFTA
 - [2] European Patents
- Appendix 13A Patent Office Rules on Deposit of Microorganisms (37 C.F.R. §§ 1.800-1.809)
- Appendix 13B Guidelines for Depositing Microorganisms and Other Biological Material (MPEP 608.01(p)(c))
- Appendix 13C List of Repositories for Microorganisms and Other Biological Material
- Appendix 13D Patent Office Rules Regarding Applications Disclosing Nucleotides and/or Amino Acid Sequences (37 C.F.R. §§ 1.821-1.825)
- Appendix 13E Plant Variety Protection Act (7 U.S.C. §§ 2321-2582)
- Appendix 13F The Orphan Drug Act (21 U.S.C. §§ 360 et seq.)
- Appendix 13G The Drug Price Competition and Patent Term Restoration Act of 1984 (21 U.S.C. § 355(a), (b), and (j)) (sometimes referred to as “the Waxman-Hatch Amendments”)
- Appendix 13H NIH Model License Agreement—Nonexclusive

TABLE OF CONTENTS

Appendix 13I NIH Model License Agreement—Exclusive

CHAPTER 14

Licensing of Technology Funded or Owned by the U.S. Government

- § 14.01 Introduction
- § 14.02 Sources of Federal Rights To Technology
 - [1] Technology Created in Federal Laboratories
 - [2] Technology Created by Federal Government Employees
 - [3] Technology Created on Projects Funded by Federal Government
- § 14.03 Federal Policy Regarding Ownership and Licensing of Technology
 - [1] Historical Approach
 - [2] Recent Policy Changes
- § 14.04 The Laws Enacted to Implement the New Policy
 - [1] The Stevenson-Wydler Act of 1980
 - [2] The Bayh-Dole Act of 1980
 - [3] Small Business Innovation Development Act of 1982
 - [4] Federal Technology Transfer Act of 1986
- § 14.05 Licensing of Technology Created by Federal Employees
 - [1] Common Law Principles
 - [2] Executive Order No. 10096
 - [3] Current Regulations
- Appendix 14A Executive Order No. 12591
- Appendix 14B Executive Order No. 12618
- Appendix 14C Model Cooperative Research and Development Agreement for a Project Between the Bureau of Mines and One Collaborator
- Appendix 14D Model Cooperative Research and Development Agreement for the Department of Agriculture
- Appendix 14E Model Cooperative Research and Development Agreement for the Department of Commerce: Army Research Laboratory
- Appendix 14F Model Patent License Agreement for the Army
- Appendix 14G Model Cooperative Research and Development Agreement for the National Institutes of Health Centers for Disease Control (NIH Patent Policy Board, April 24, 1989)
- Appendix 14H Model Cooperative Research and Development Agreement for Martin Marietta Energy Systems

- Appendix 141 Executive Order No. 10096 (Providing for a Uniform Patent Policy for the Government with Respect to Inventions Made by Government Employees and for the Administration of Such Policy)

CHAPTER 15

Taxation of Licensing Income Derived Internationally

- § 15.01 Introduction
- § 15.02 Defining the Subject Matter
- § 15.03 Defining and Characterizing the Technology Transfer
- § 15.04 Characterization—Income Tax Consequences
 - [1] Imposition of Local Tax
 - [2] Determining the Source of Income
 - [3] Source-of-Income Rules in the United States
 - [4] Double Taxation and the U.S. Foreign Tax Credit
 - [5] Bilateral Income Tax Treaties
- § 15.05 Value Added Taxes
- § 15.06 Tax Implication of the Structure of the Technology Transfer
- § 15.07 U.S. Rules Covering the Transfer of Technology to Related Entities
 - [1] Transfer Pricing
 - [2] Transfer of Technology as a Capital Contribution
- § 15.08 Foreign Exchange Controls and the Problem of Blocked Income
- § 15.09 Conclusion

CHAPTER 16

Equipment Leasing in Licensing Operations

- § 16.01 Introduction
 - [1] Increased Use of Leasing
 - [2] Applicable Law
 - [3] Terminology
 - [4] Lease Sources and Procedures
- § 16.02 Current Leasing Practices
 - [1] General Leasing Practices Overseas
 - [2] Reasons for Leasing
 - [3] Types of Leases
- § 16.03 Uniform Commercial Code Article 2A
 - [1] Applicable Only to True Leases