RONALD B. COOLLEY

Ron is a Senior Of Counsel of Jenkens & Gilchrist in its Chicago, Illinois office.

Ron holds degrees in Aerospace Engineering from Iowa State University, a J.D. with distinction from the University of Iowa, and an M.B.A. from the University of Iowa.

Ron is a member of the bars of the State of Illinois, State of Texas, Northern District of Illinois (member of trial bar), Court of Appeals for the Seventh Circuit, Court of Appeals for the Federal Circuit, Supreme Court of the United States, and is a registered attorney in the United States Patent and Trademark Office.

Ron was president of the Intellectual Property Law Association of Chicago, a member of council of the ABA Patent, Trademark & Copyright Section, a member of the Board of Directors of the American Intellectual Property Law Association, and a member of the Board of Trustees of the Licensing Executive Society.

Ron has authored over 75 published articles and for legal writing has received the John Marshall Law School Gerald Rose Memorial Award and the Rossman Memorial Award presented by the Patent and Trademark Office Society.

Recent Decisions in Licensing

Ronald B. Coolley

Jenkens & Gilchrist
Chicago, Illinois

ABANDONMENT

Licensees are estopped from raising any events prior to the termination of the license to challenge the validity of the licensor's trademarks and this includes a defense of abandonment. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

AMBIGUITY

A license is ambiguous when its meaning is uncertain and doubtful of it is reasonably susceptible to more than one meaning. A court may find ambiguity whether or not it has been pled. The primary concern in license interpretation is to ascertain the true intentions of the parties as expressed in the license. A court should construe licenses from a utilitarian standpoint bearing in mind the particular business activity sought to be served and need not embrace strained rules of interpretation which avoid ambiguity at all costs. *Scherbatskoy v. Halliburton* Co., 52 U.S.P.Q.2d 1461 (Fed. Cir. 1999).

ANTITRUST

Intellectual property rights do not confer a privilege to violate the antitrust laws. But, it is also correct that the antitrust laws do not negate a patentee's right to exclude others from its patent property. A patent alone does not demonstrate market power and the United States Department of Justice and the Federal Trade Commission have issued guidelines that even where market power exists, such power does not impose upon the patent owner an obligation to license the use of that property to others. *In re Independent Service Organizations Antitrust Litigation*, 53 U.S.P.Q.2d 1852 (Fed. Cir. 2000).

ANTIWAIVER CLAUSE

The license at issue contained an antiwaiver clause. The payment clause provided that acceptance of any payment after its due date shall not constitute a waiver by the licensor of any

of its rights except as to such payment. Thus, notwithstanding the licensor's acceptance without protest of the licensee's consistent late payments, the court concluded based on the antiwaiver provision that the licensee was in breach of the license when later declared as such by licensor. *MCA TV Ltd. V. Public Interest Corp.*, 171 F.3d 1265 (11th Cir. 1999).

CONFIDENTIAL RELATIONSHIPS

A confidential relationship does not exist between a licensor and licensee absent an express agreement of confidentiality. *Seatrax, Inc. v. Sonbeck Int'l, Inc.*, 200 F.3d 358, 53 U.S.P.Q.2d 1513 (5th Cir. 2000).

COPYRIGHT LICENSE

Generally, a copyright owner who grants a non-exclusive license to use copyrighted material waives the right to sue the licensee for a copyright infringement. *Sun Microsystems Inc. v. Microsoft Corp.*, 188 F.3d 1115 (9th Cir. 1999).

COPYRIGHT LICENSE DURATION

The District Court held that unless the parties agreed to a shorter duration, 17 U.S.C. Section 203 imposes a minimum of 35 years duration for a copyright license. The Court of Appeals noted that the issue of whether Section 203 imposes a minimum term of 35 years on licenses of indefinite duration has caused a split among the Circuit Courts. This court after reviewing the text and legislative history of Section 203 and considering the views of the other Circuit Courts, concluded that Section 203 does not create the minimum term for licenses of indefinite duration. *Korman v. HBC Florida, Inc.* 182 F.3d 1291 (11th Cir. 1999).

COPYRIGHT LICENSE EXCEEDED

The fact that a party has licensed certain rights in its copyright to another party does not prohibit the licensor from bringing an infringement action against the licensee where it believes

the license is exceeded or the agreement breached. *Tasini v. New York Times Co.*, 54 U.S.P.Q.2d 1032 (2nd Cir. 1999).

COPYRIGHT LICENSE-INTERPRETATION

In a non-exclusive license to reproduce, publish, and use the copyright owner's copyrighted report the term "use" encompasses the act of creating derivative works. *Kennedy v. National Juvenile Detention Association,* 187 F.3d 690 (7th Cir. 1999).

The parties agreed that the author could use licensed materials he created in his own teaching and private consultation work. Because the court believed the teaching clause in the license to be ambiguous, it looked to prior negotiations between the parties. The negotiations included correspondence by the licensee that it did not want the author-licensor using the copyrighted material in mass teachings. Based on this, the court interpreted the teaching clause of the license to be teaching undergraduate and graduate students in the author copyright owner's university classes. *Kepner-Tregoe, Inc. v. Victor Vroom*, 186 F.3d 283 (2nd Cir. 1999).

COPYRIGHT NON-EXCLUSIVE LICENSE

While an exclusive license to use copyrighted material must be written, a non-exclusive license can be granted orally or can be implied from the conduct of the parties. *Korman v. HBC Florida, Inc.*, 182 F.3d 1291 (11th Cir. 1999).

DEFINITION OF A TRADEMARK LICENSE

A license that does not contain the word "license", does not call for the payment of royalties, does not establish quality control, has no termination date and contemplates no affiliation or joint activity of the licensor or the licensee does not prevent the license from being a valid trademark license. These terms are unrelated to either the grant of a limited right to use a

trademark or to the obligation to maintain quality standards. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 2000 U.S. Dist. LEXIS 1299 (C.D. Il. 2000).

ELECTRONIC SHRINK WRAP LICENSE

An electronic "shrink wrap license" on a web site is permissible where it is open and obvious and hard to miss. For example, a permissible license is one where the customer must click on "Agree" to the terms and conditions before the customer can proceed. A home page that includes terms and conditions at the bottom of the page requiring the customer to scroll down the home page to find them and must pass over links to other pages and information does not create a license. *Ticketmaster Corp. v. Tickets.Com Inc.*, 54 U.S.P.Q.2d 1344 (D.C. Calif. 2000).

EXCLUSIVE LICENSEE'S RIGHT TO SUE

The license had a clause giving the licensee, in the event the licensor failed to halt an infringement within three months, the option to initiate appropriate legal proceedings in the licensee's own name. The court noted that this clause did not grant the licensee the right to participate in an infringement action brought by the licensor nor did it limit the licensor's management of such a lawsuit. Moreover, the court said that the licensee's right to sue an infringer if the licensor did not was illusory because the licensor can render that right non-existent by granting the alleged infringer a royalty free sublicense. Thus, the court concluded, the licensor controlled the enforcement of the licensed patent for all practical purposes thereby holding all substantial rights in the patent and could sue under its name. *Speedplay, Inc. v. Bebop, Inc.*, 53 U.S.P.Q.2d 1984 (Fed. Cir. 2000).

IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING

The covenant of good faith and fair dealing implied in contracts mandates that neither party shall do anything which shall have the effect of destroying or injuring the right of the other

party to receive the fruits of the license. The implied covenant is an independent duty and may be breached even where there is no breach of the license's express terms. *Emerson Radio Corp. v. Orion Sales, Inc.*, 80 F. Supp.2d 307 (D. N.J. 2000).

IMPLIED DUTY OF BEST EFFORTS

There can be no implication of a duty to use best efforts to market licensed products where the licensee was required to pay a minimum royalty regardless of the level of sales. *Emerson Radio Corp. v. Orion Sales, Inc.*, 80 F. Supp.2d 307 (D. N.J. 2000).

INFRINGEMENT AFTER TERMINATION

The likelihood of confusion regarding a trademark exists as a matter of law if a trademark licensee continues to use the trademark owned by the licensor after termination of the license. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

INFRINGEMENT OF COPYRIGHT BY LICENSEE

17 U.S.C. Section 106(3) grants a copyright holder the exclusive right to distribute its copyrighted work. A common method of distribution is through licensing agreements which permit the copyright holder to place restrictions upon the distribution of its products. A licensee infringes the owner's copyright if its use exceeds the scope of the license. *Adobe Systems, Inc. v. One Stop Micro, Inc.*, 84 F. Supp.2d 1086 (N.D. Cal. 2000)

IRREVOCABLE LICENSE

A license containing no timeframe is generally terminable at will rather than being irrevocable. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

JURISDICTION

Even though a licensor has no activities, offices or representatives in a state, if a licensee ships licensed products into the state, this creates jurisdiction over the licensor in that state. *Anita's New Mexico Style Mexican Food, Inc. v. Anita's Mexican Foods Corporation*, 53 U.S.P.Q.2d 1372 (4th Cir. 2000).

Providing software to a licensee for a limited time period to allow the licensee to evaluate this software where the software is normally offered for sale is an offer for sale and an inducement to the licensee to use the software. Where the software has been alleged to be an infringement of a patent, this license established minimum contacts by the licensor in the licensee's state for purposes of jurisdiction. *Cognitronics Imaging Systems, Inc. v. Recognition Research Inc.*, 83 F. Supp.2d 689 (E.D. Va. 2000).

LICENSE INTERPRETATION

In interpreting the language of a license, a court must give effect to the mutual intention of the parties. The parties' intent is inferred exclusively from the language of the license assuming the language is clear and explicit. Under the parole evidence rule a court is prohibited from considering any extrinsic evidence to vary or add to the terms of a license. However, the exception to the parole evidence rule is that broad extrinsic evidence is admissible to demonstrate that there is an ambiguity in a license and for the purpose of construing this ambiguity. *Adobe Systems, Inc. v. One Stop Micro, Inc.*, 84 F. Supp.2d 1086 (N.D. Cal. 2000).

LICENSE INTERPRETATION – PAROLE EVIDENCE

The decision whether to admit parole evidence involves a two-step process. The first step is to review the proffered parole evidence regarding the parties' intent to see if the language of the license is reasonably susceptible to the interpretation urged by a party. At this stage, the

court provisionally receives (without actually admitting) the parole evidence. If in light of the proffered extrinsic evidence the court concludes that the license is reasonably susceptible of the interpretation urged, the extrinsic evidence is admitted to aid in the second step of the two-step process -- the actual interpretation of the license. Significantly, the test of whether parole evidence is admissible to construe an ambiguity is not whether the language of the license appears to be ambiguous, but whether the evidence presented is relevant to prove a meaning to which the language of the license is reasonably susceptible. *Advanced Micro Devices, Inc. v. Altera Corp.*, 1999 U.S. App. LEXIS 6272 (Fed. Cir. 1999).

Parole evidence is only admissible if a license is ambiguous. When a party argues that a license contains an ambiguity, that party must be able to point to a reasonable alternative interpretation for the ambiguity. *Perry v. Sonic Graphic Systems, Inc.*, 54 U.S.P.Q.2d 1491 (E.D. Pa. 2000).

LICENSE LANGUAGE

In a license that includes the language "contains the understanding of the parties" New York law gives especially great weight to such clauses as an indication of the parties intent to be governed by the written terms of the license alone. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

LICENSING DOCUMENTS IN LITIGATION

The court held that documents relating to a patentee's licensing efforts were relevant to infringement because they could contain admissions against interest as to the patentee's interpretations of the claims. According to the court, actions and statements against interest of the owner of a patent or inventor may be considered by a court when construing the scope of the patent and are relevant to the issues of infringement and validity. Accordingly, the court directed

production of the licensing documents to the extent that it did not infringe the attorney/client privilege or work product doctrine. *In re Conopco, Inc,* 200 U.S. Dist. LEXIS 1601 (D. N.J. 2000).

PRICE DISCRIMINATION

Section II of the Clayton Act prohibits discriminating in price between any two purchasers of commodities that are of like grade and quality. A license of a right to use technology is not a commodity subject to Section II of the Clayton Act. *Kanal-Muller-Gruppe International v. Inliner USA*, 52 U.S.P.Q.2d 1790 (S.D. Tx. 1999).

PRIOR DRAFTS OF LICENSE

Prior drafts of a license are irrelevant in interpreting the license when the intent of the parties is clear from the four corners of the license. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

PURCHASER FROM LICENSEE

To the extent that a party buys its products from an authorized licensee of that product, the purchasers are subject to the same licensing restrictions under which those licensees operated. *Adobe Systems, Inc. v. One Stop Micro, Inc.*, 84 F. Supp.2d 1086 (N.D. Cal. 2000).

RIGHTS PRIOR TO LICENSE

A licensee can not rely on the argument that its right to a trademark came not from a license but from its use of the mark prior to the execution of the license. Because a licensee loses any independent claim of a right to the mark when it signs a license, the licensee's prior claims of independent rights to a trademark are lost or merged into the license when that party accepts its position as the licensee thereby acknowledging that the licensor owns the mark and

that the licensee's rights are derived from the licensor and enure to the benefit of the licensor. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

TRADEMARK LICENSE - QUALITY CONTROL

A licensor is allowed to rely on the reputation of a licensee to ensure the quality of the goods and services offered. Absent a significant deviation from the licensor's quality standards by the licensee, a licensor does not forfeit its trademark rights through licensing agreements. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

TRADEMARK LICENSE - WHAT MAKES AN AGREEMENT A LICENSE

A trademark license is a grant of permission to use the licensor's trademark. The essential terms of a trademark license are: that the license grants the right to use the licensor's trademark to the licensee, states that the licensor owns the registered trademarks and that the licensee gains no ownership by reason of the license, the license states that all uses of the licensed marks will continue to inure to the benefit of the licensor, and the license obligates the licensee to maintain the quality of the goods and services and that maintenance of that quality is a material obligation of the license. *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.*, 54 U.S.P.Q.2d 1012 (C.D. Il. 2000).

TRADEMARK LICENSEE ESTOPPEL

In a trademark license lawsuit, the licensee argued that the doctrine of licensee estoppel in trademark matters was dead and licensees were free to challenge the validity of the licensed trademarks. The court noted that licensee estoppel first gained prominence in the patent area. There, patentees frequently argued that licensees where estopped to challenge the validity of

licensed patents but the Supreme Court in Lear v. Adkins rejected the doctrine as applied in the patent field. The court noted, however, that the public interest in promoting challenges to the validity of trademarks is not nearly as weighty or as needed as in the patent area. Thus, the court held that the Lear rule is not applicable in trademark cases and licensee estoppel in trademark cases does exist. *E.G.L. Gem Lab Ltd. v. Gem Quality Institute, Inc.*, 2000 U.S. Dist. LEXIS 904 (S.D. N.Y. 2000).

TRADEMARK LICENSING A PERSON'S NAME

The court examined the right of a person to use his own name in business after licensing his name to another corporation for use as a part of a trade name. The court ruled that although a person can sell the right to use his name, a court will not bar that person from using that name unless the person's intention to convey an exclusive right to the use that of that person's own name is clearly shown. The court noted that in this case what was clearly shown by the licensing agreement was that the licensor explicitly intended to grant no more than a non-exclusive right to use his name as a trademark. *Yashiro Co. v. Falchi,* 1999 U.S. App. LEXIS 18161 (2nd Cir. 1999).

USE OF TRADEMARK OUTSIDE OF A LICENSE

It often has been held that any sales of goods or services under a licensed mark which are outside the area of the consent granted in the license are regarded as infringements of the trademark. Just as the unauthorized use of a mark by a former licensee constitutes a fraud on the public, since the public is led to think that the ex-licensee is still connected with the licensor, the use of a licensed mark beyond the scope of the license may deceive the public into thinking that the licensee is authorized to provide the goods or services offered under the mark when in truth it is not. Thus, use a trademark outside the scope of a trademark license is infringement of those

trademarks. *E.G.L. Gem Lab Ltd. v. Gem Quality Institute, Inc.*, 2000 U.S. Dist. LEXIS 904 (S.D. N.Y. 2000).

VERBAL LICENSE

A license is not formed unless there is a meeting of the minds. A meeting of the minds requires assent by all parties to the same thing in the same sense so that their minds meet as to all the terms. No license exists if the parties merely engage in preliminary negotiations and do not agree to all essential terms. A response to an offer amounts to acceptance if an objective, reasonable person is justified in understanding that a fully enforceable license has been made. The licensee must manifest unconditional agreement to all of the terms of the offer without material reservations or conditions. A licensee may accept an offer by conduct if that conduct manifests his or her intent to be bound. *Naimie v. Cytozyme Labs., Inc.*, 174 F.3d 1104 (10th Cir. 1999).