

Strategic licensing of intellectual property

How licensing can be a competitive advantage in your business **Interviewed by Leslie Stevens-Huffman**

As the U.S. economy continues its shift from the manufacturing sector to services and the information age, a new commodity has emerged: intellectual property. Initially, most intellectual property was employed by its owner for internal use. Now, licensing of intellectual property to others has become a huge generator of income for a vast number of U.S. businesses.

The global intellectual property licensing market is estimated to be worth hundreds of billions of dollars annually. By some measures, the value of U.S. intellectual property licenses abroad is now comparable to that generated by the export of goods.

"In addition to using licensing as a revenue generator, licensing of intellectual property from others is an essential element of virtually all businesses' strategic plans," says Jacob C. Reinbolt, partner and member of the Intellectual Property Team at Procopio, Cory, Hargreaves & Savitch LLP. "Those who license most effectively — both in and out — will have a far greater chance of succeeding than their competitors who do not license effectively."

Smart Business spoke with Reinbolt about what CEOs should know regarding the licensing of intellectual property.

What should CEOs know about licensing intellectual property?

Licensing is an extremely effective tool because of its infinite flexibility compared to the purchase or a sale of intellectual property. However, that same flexibility can be a double-edged sword if the license agreement isn't structured properly.

Most businesses license both 'in' and 'out.' A good example of 'licensing in' is a software application. The software company grants you the rights to use its software in the manner that it specifies, but it retains ownership of the intellectual property that continues to generate revenue for them. When you sell a widget to another business, that business is free to use the widget in any manner it wishes, with no restrictions. If you 'license out' the rights to use that widget through a license agreement, it



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may limit when, where and how that business can use the widget, or only grant the rights for a specific period of time.

Whether a CEO is 'licensing in' or 'out,' the terms of the license agreement are important.

What are the different forms of license agreements and what are the issues to be aware of with each of them?

The first is the patent license. The most common problem with patent licenses is the failure to recognize that a patent does not grant the patent owner the right to make anything. Rather, it grants the right to exclude others from making, using or selling the invention.

The second is the trademark license; its main problem is that the licensor must maintain quality control over the product or service sold by the licensee, but may not go so far as to create a franchise by specifying a manner of doing business. For example, if you own the service mark 'Sunny Tanning Salons' and license the right to use that mark for a salon, you can specify the minimum quality level for the tanning services — tans that don't fade for a week — but not that the walls in the salon have to be yellow.

The third is the copyright license. Copyrights are unique because they include six different rights within the copyright itself. By not anticipating their future needs, the licensee may not get all of the rights that they require. For instance, the *New York Times* licensed articles from writers for print publications but then later published them electronically. The newspaper didn't anticipate the evolution of electronic media when it acquired the pieces and thus never obtained the right to republish the works in that manner. It was sued and lost.

The fourth are trade secret licenses, which are critically important because trade secret protection can be perpetual. The catch is that the licensor must take reasonable efforts to maintain the confidentiality of the trade secret. A good example is the Coca-Cola formula. Had it been protected by a patent, the protection would have expired and the recipe divulged. By using trade secret licenses, Coke has managed to protect the recipe for over 100 years.

What are the top five clauses to include in license agreements?

1) Representations and warranties: because the licensee needs to be sure the licensor has the right to grant the licensed element.

2) Scope: it's important because it covers territory, manner of usage and distribution.

3) Delivery and acceptance: to ensure that what you are getting actually works.

4) Modifications and enhancements: to ensure that the licensee remains competitive, such as having the right to receive upgrades.

5) Limitation of liability: it's important to put a cap on your potential exposure.

Protection of the licensed intellectual property is also extremely important, particularly if any trade secret information is involved.

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