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AALS Contracts Transcripts

*717 TEACHING INTELLECTUAL PROPERTY LICENSING TRANSACTIONALLY

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GOOD morning. My name is Llew Gibbons, and I am an associate professor of law at the University of Toledo College of Law. Actually I'm a ringer here. I am not sure where my first year Contracts professor is: above or below. But wherever Professor Bob Hallgring is, I am certain that he is surprised and pleased that I have the honor of being invited and the chutzpah to accept your kind invitation to address the Contracts Section of the American Association of Law Schools. [Laughter.]

I said that I am a ringer. I do not teach contracts or commercial law. But I do teach an upper-level course in which contract law is instrumental. I teach in the areas of Intellectual Property, Cyberlaw, and Ecommerce. The latter two are courses that are largely defined by contract law. But, I am here today to discuss the first area, intellectual property. I have the privilege of teaching Intellectual Property Licensing and Management as an upper-level, capstone course. First, my students should have taken at least the core intellectual property courses such a Copyright, Trademark, and Patent. As a faculty member who is lucky enough to be downstream of the first year Contracts faculty, the students taking my Intellectual Property Licensing course have had common law contracts and, in theory, have had U.C.C. Article 2, some familiarity with Article 9, and a smattering of bankruptcy. So they have a substantial knowledge base on which I can predicate my course. This permits me the luxury of focusing on the application of legal theory and teaching the skills to isolate legally relevant facts rather than teaching theory and applying the law in sparse, pared down factual context.

Before I proceed further, I would be remiss not to thank all of you who teach contract law. Because of the extraordinary skill and outstanding efforts of the faculty teaching in first year Contracts and upper-level commercial law courses and the work of the authors of the wonderful casebooks that facilitate learning contract law and commercial law, I am able to teach the finer points of intellectual property management and licensing without returning to the core concepts of contract law. [FN48]

By the finer points, I mean those substantive and procedural points where the adjective law of contract intersects with what, is from my perspective, the substantive law governing intellectual property and the background noise of negotiations, business decisions, and federal and state regulations, all of which confound the perfect unambiguous text embodying the agreement of the parties that ***718** is susceptible to one and only one meaning by any interpretive community without resort to outside exegeses. I am of course still waiting for a student to produce this platonic ideal contract.

In intellectual property licensing, we use contract law to allocate property rights created by statute or the common law or to opt-out of the default rules established by statute or the common law. If the law is unclear, we

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may even use contract law to create a cohesive regime to create and to allocate rights. [FN49] Computer software is a good example of this. The legal status of computer software under intellectual property law was unclear despite its significant role in modern, information driven, post-industrial revolution economies. Scholars and practitioners pugnaciously debated whether software was copyrightable under § 102(b) of the Copyright Act which, excludes "procedure[s], process[es], system[s], method[s] of operation ...." The status of software under patent law was equally cloudy because abstract ideas and mathematical algorithms were not patentable subject matter. [FN50] What is a computer program but a mathematical algorithm or an abstract set of instructions? Software at first blush fitted in the core definitions of unprotectable subject matter. So, the markets demanded and law schools produced creative lawyering to solve this conundrum. If software was neither copyrightable nor patentable, an attorney looked to the law of trade secret, which is largely contractual, and developed contracts to provide to the *degree possible similar protections* to those provided under copyright or patent law. In fact now for most mass-market intellectual property licenses, the statute is the floor, and copyright owners contract for substantially more rights than are granted in the statute creating the initial property interest.

The Intellectual Property Licensing and Management course at the College of Law is ambitious. We strive to review the basics of intellectual property, basics of contract law, new forms of contract such as the mass-market license (standard form contract) and the Uniform Computer Information Transactions Act (UCITA), negotiation theory, and to place the process into a larger business context. This requires that we use a sufficiently complex hypothetical. Nothing is more complex than the real world. So, I try to identify two small companies with well-developed websites. I look for websites that provide information that would be useful in negotiating a license and ignore glitzy websites that focus solely on sales. Once I narrow it down to a few candidates, I do some basic research on their intellectual property portfolios. Both companies should have patents, copyrights, or trademarks, or other opportunities to meet mutually beneficial exchange. I then invent a hypothetical fact pattern for each company that does not stray very far from the truth as publicly revealed in public filings, the company website, or similar places. In my hypothetical fact patterns, there are numerous opportunities for the two parties to reach an agreement. Of course, in addition to the public hypothetical, each party gets secret instructions. I then randomly assign the students to two groups.

For the sake of this discussion let's name the two companies ACME and COYOTE. [FN51] ACME and COYOTE both have intellectual property assets that may ***719** be used to create a new product. In terms of resources, they have the entire world. I expect them to go and research-if you're the Acme people, I expect you to research Coyote's patent, copyright, and trademark registrations with the Library of Congress or the United States Patent and Trademark Office respectively. I expect them to be looking at the various SEC filings, the various filings with the relevant secretary of state, such as U.C.C. Form 1. As the client, they are always free to *email* me questions, which I usually answer, but often will refer them to a published resource or suggest that the information should be learned during the negotiation process.

I believe that in a traditional contracts or commercial law course, the focus is on whether the document is legally complete to accomplish whatever it purports to accomplish. At times, traditional contracts courses may look behind the document to the circumstances under which the contract was formed. But other than Article 9, contract law professors and their students seemed disinterested, uninterested, and perhaps agnostic on the need to verify that the parties to the contract owned the subject matter of the contract. The difference on how we approach contracts in this course is that here like in Article 9, we are vitally concerned with ownership; and because intellectual property rights are intangible, we are concerned with prior contracts granting rights in the property. We are also concerned with the financial stability of the future business partner. These issues come into play in drafting the contract to determine how risks and responsibilities will be allocated and whether supple-

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mental insurance may be required to guarantee any indemnity clause(s).

After the students have done their initial opposition research (and substantial research on their client), I ask them as a group or individually to draft a pre-negotiation memorandum for me. The pre-negotiation memorandum should address the goal of the negotiation, principles behind selecting the goal, and strategies to achieve that goal. As this process of schema, correction, and negotiation planning takes place, my course is ongoing in terms of substantive knowledge. I hope that I am imparting substantive knowledge as to intellectual property law, contract law, or sound business practices that will affect the on-going process that is finally embodied in the license.

I view my role as facilitator to encourage the student's own creativity. I am always prepared to add more facts or to clarify a fact, if it is the sort of question a client would answer and not a legal question that they should research on their own. I generally do not view myself as a referee, but if I have to intervene to assure professionalism or ethical behavior on the part of any student or team, I will impose severe sanctions. I stress professionalism not only in its technical meaning, but also professionalism in a broader sense of common courtesy and respect to their client, team members, and opposing counsel. I tell them that you will soon be lawyers, and you have to be able to resolve these conflicts, from scheduling to discourteous behavior. I am prepared to provide more information in terms of the clients' needs, but I will not referee disagreements between the two law firms. And, it works.

As we proceed with the license negotiations, we are still covering substantive intellectual property licensing law, and the students are meeting as "law firms" on their own time to work on the final license. The ongoing substantive lecturers add ***720** "new" or at least previously unconsidered material to the negotiations. For example, prior to classroom discussions, students do not tend to think about the appropriate business entity to undertake the transaction. Do they want to create a joint venture? Clearly, how the deal is structured raises tax, business, and legal issues.

Eventually I suggest to the students that it may be more efficient to break up their law firms into smaller, more manageable groups and to assign one or two students to each group. Each group is then responsible for negotiating an individual section of the overall license agreement. What I have found fascinating is that each group will define terms differently rather than agreeing on a master set of general definitions. "Time" is the best example. Time for each section of this contract will be defined differently. The royalty section will define a time differently from the production section, and both are different from the section defining the duration of the license. Whatever section you read defines a "day" differently. Sometimes weekends and holidays count, sometimes they do not. In essence, each section has its own definition section, which may conflict with the definitions used in other sections.

After the small groups finish their individual sections, collectively the groups then are supposed to merge them into a license. I then get only a definition section that a lawyer could love. "A day for the purposes of section I(a)(ii) means 24 hours but does not include legal holidays but does include weekends unless the legal holiday is a Friday or Monday. A day for the purposes of section II(b) shall include all weekdays ...." We collectively work through this in class-I note portions that I find confusing, inconsistent, illegal, immoral, or unconscionable, as well as those sections that may not represent sound business judgment. Finally, we negotiate. I often ask the individuals who negotiated a section questions such as "Why do you need this definition of time?" I find out the individual students who negotiated the individual definitions of time for their section are wedded to it. They will actually fight against their "own law firm" in order to assure that their definitions make it into the

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final agreement, sometimes even if the negotiated language may not represent their client's best interests.

Students are wedded to their language. So I ask, “Why are you wedded to this language?” As contract law professors, you will not be surprised by the answer. The most popular answer is that “I found it in this form book, and this form book is wonderful.” [Laughter.] Or, “I did similar contracts five years as a paralegal or business professional, or I intern downtown for a law firm and this was the language they use.” With honest interest and confusion, I ask, “What do you gain? What do you lose? What's going on here?” To which many students respond, “I don't know.” When I ask, “How does it advance my interest as a client?” an honest student once told me, “I don't know, but I really like this language.”

We go through it line by line, word by word, striving for the ideal unambiguous agreement or a least the internally consistent agreement. This requires us to discuss what each party intended in class-and we often discover there was no meeting of the minds. The students who did not participate in drafting the clause under discussion are often willing to chime in why the clause is ambiguous or may be interpreted in a manner other than as the negotiators intended. With this is done, my students breath a sigh of relief; and we go on to analyze the contract in the larger business context.

***721** I go back and say, “By the way, you realize intellectual property, like livestock, frequently creates new intellectual property. How are we going to allocate these new forms of intellectual property? Let us say in the course of doing our joint venture, a new patent issues, a new copyright, or a new trademark. Who owns those things? For what duration? Copyright is currently, for a corporate works of authorship, up to 120 years, and life plus 70 for natural people. Patents last for twenty years. Trademarks are potentially forever. We have to go back and consider these new forms of intellectual property.” All of a sudden they realize, “Wait a minute. We're creating new relationships. We're creating new property. We need to start allocating rights in this property.” As the eternal cynic, I also have to remind my students that “breaking up is hard to do.” At the end of this process in theory, we have this wonderful contract. It is wonderful in the sense that it is complete insofar as there are provisions that theoretically cover the relevant possibilities under consideration.

And then we go through it again, line by line, item by item. That is when we realize that some clauses do not necessarily or accurately memorialize the intention of the parties. Now we have both sides thinking does this definition accurately memorialize our intention, using terms like “best good faith efforts?” I ask my students, “Do you really want to use a term like ‘good faith efforts,’ or do you want to maybe have an operational definition? Can both parties agree that “good faith” really means a minimum of 10,000 units per year?” Again, we keep going back and forth. Students tend to like abstract concepts and legal language like “good faith” and “fair dealing.” I believe that business people are from Missouri, the “Show Me” state. So while I like good faith and fair dealing as much as anyone else at the end of the day, my client and I know whether 10,000 units were produced; we do not know if there was good faith or fair dealing. Further, I believe that under many contract regimes “good faith” is required, presumed, and read into every contract, so why write it in as an express term if the law presumes it and a judge will demand it?

Then we go through it again. We keep slogging through. “By the way, what are the antitrust implications of this? For example, royalties paid in excess of the life of a patent are according to an old Supreme Court decision as a per se violation of the Sherman Act.” So, we go back and restructure the royalties to expressly consider this issue. We restructure our royalty rates so we can allocate part to the trade secret element, part to the know-how, and part to the patent. The result is that at the expiration of patent the royalty rates are clearly being paid for know-how, which still exists and justifies continued royalty payments.

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Every time they are convinced we have a deal, something else comes up. And if they don't pick it up on their own, during class I “accidentally” tell a war story which at least one student will pick up on.

My course is heavy on class participation. I think the final memo is worth between 60 and 70%. In terms of the final grade, each student takes the final contract, and they write a post mortem. I require each student personally to go through every line and every clause. They will state where they agree or disagree with their colleagues. If they disagree with the contract language, they must state and describe how they would change it, and how their preferred language would improve the contract. If they agree with the contract language, I want to know why ***722** and how this accomplishes their client's goals. In theory, each student has read, written, and analyzed a contract. They have researched the legal and factual questions relevant to the contract. I hope that my students understand the intellectual property, contract, choice-of-law, business, tax, and other issues involved in an intellectual property licensing agreement. But, one of my major hopes is that my students no longer defer their professional judgment to form books but rather be proactive professionals who use form books and guides as mere suggestions to incorporate into their work product.

In closing, I would like to give one person's perspective as someone who only teaches upper-level courses. I have a wonderful dean and associate dean who permit me to teach courses that I love to upper level students. My students self-select to take licensing based on personal interests or career goals. No one has to take a course from me, so most of my students are there either because they care about the subject matter or, as one student told me, “Professor Gibbons, you are less boring than [another professor teaching at the same time].” Every so often, my ego needs a grounding in reality. [Laughter.]

But, I am very lucky that I can rely on faculty such as yourselves to cover the basic doctrines of contract and commercial law. Every so often, I will make a statement about contract or commercial law. My students will look at me quizzically, and I will ask, “Don't they teach X in first year Contracts anymore?” So far, my students have sworn on a stack of Bibles they do not teach consideration, offer and acceptance, or U.C.C. 2-207. [FN52] I have had an entire class that claimed it is black letter law that standard form contracts are per se unenforceable as contracts of adhesion and, therefore, unconscionable. Since it has been a few years since I last studied Contracts, I wander into my colleague's offices and ask about the lacuna in contract education. All my Contracts colleagues have very detailed lecture notes for just such an occasion, and they tell me that “I taught § 2-207 on March 27th at ....” And then I say, “Really?” But then I too am humbled by what my students claim that I have not taught or by what they either little noted or long remembered. I have just finished grading my exams, and I know there are many things that I have taught for which I now have a number of students with a stack of Bibles swearing that I have never mentioned. Thank you.

[Applause]

[FNa1]. Associate Professor of Law, University of Toledo College of Law.

[FN48]. On a personal note, I would like to thank Beth Eisler, Lee Ann Pizzimenti, James Tierney, Bruce Campbell, and the other University of Toledo College of Law faculty and adjunct faculty, who teach first year Contract Law and the many Commercial Law course offerings, and without whose regular advice, I would be totally lost both in terms of teaching these topics as part of my substantive area of teaching and for their assistance in incorporating these topics into my cyberlaw and ecommerce scholarship.

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[FN49]. Step-Saver Data Systems, Inc. v. Wyse Technology, 939 F.2d 91, 96 n.7 (3d Cir. 1991).

[FN50]. Gottschalk v. Benson, 409 U.S. 63, 67 (1972).

[FN51]. With apologies to *Coyote v. Acme*, Ian Frazier, THE NEW YORKER, Feb. 26, 1990, *available at* http://beebo.org/smackerels/coyote-v-acme.html.

[FN52]. U.C.C. § 2-207, dealing with the "battle of the forms," is notoriously opaque.
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