CHAPTER 1

Corporate Strategies, Structures, and Ownership of Intellectual Property Rights

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We are moving toward a global economy where the true strategic asset is IP.
Horatio Gutierrez[1]

Globally, as well as in the United States, intellectual property (IP) rights such as copyrights,[2] patents,[3] trademarks,[4] and trade secrets[5] are considered invaluable intangible assets that hold great economic promise and are, for many companies, a significant source of revenue.[6] Companies develop, acquire, and leverage these intangible assets to enhance the potential of their businesses. Further, the value of these intangible assets is not limited to any particular industry.[7] However, in order to successfully monetize such assets, effective management and utilization of the intellectual property rights is required. In order to properly manage intellectual property rights, company executives have to engage in certain decision making regarding many issues that impact these rights. These issues can include which corporate entity is to own the intellectual property rights, or whether there should be one or multiple owners. When and how should the intellectual property rights be licensed to other groups or entities within the corporate structure? How should the intellectual property rights be managed? Should worldwide rights be managed centrally or locally? How is the company going to best generate income utilizing the intellectual property it owns or acquires? The process of making the decisions regarding these and other issues are handled differently by different executives and different companies. The focus of this chapter is to explore the different options and decisions that companies have made and are making as they value and strategically leverage these intangible assets.

The Importance of Intellectual Property—A Changing Paradigm

> *What was once relegated to a bean counter is now being taken much more seriously in companies.*[8]

Historically, most companies employed a defensive strategy when dealing with their intellectual property. Litigation was the one significant avenue through which the value of an intellectual property asset was leveraged, usually as a result of a third party infringement. More recently, however, statistical data on intellectual property prosecution and litigation indicates that intellectual property rights are no longer considered a mere bundle of legal rights that need to be asserted in court to leverage their economic potential[9] (see Figure 1.1); instead, the prevailing view is that these rights are considered a core asset, and its management a significant business strategy.[10]

In more recent times, companies have recognized the need to utilize their intellectual property as a means for promoting innovation, growth, and development of the business and revenue generation. Leading companies "use those intangible

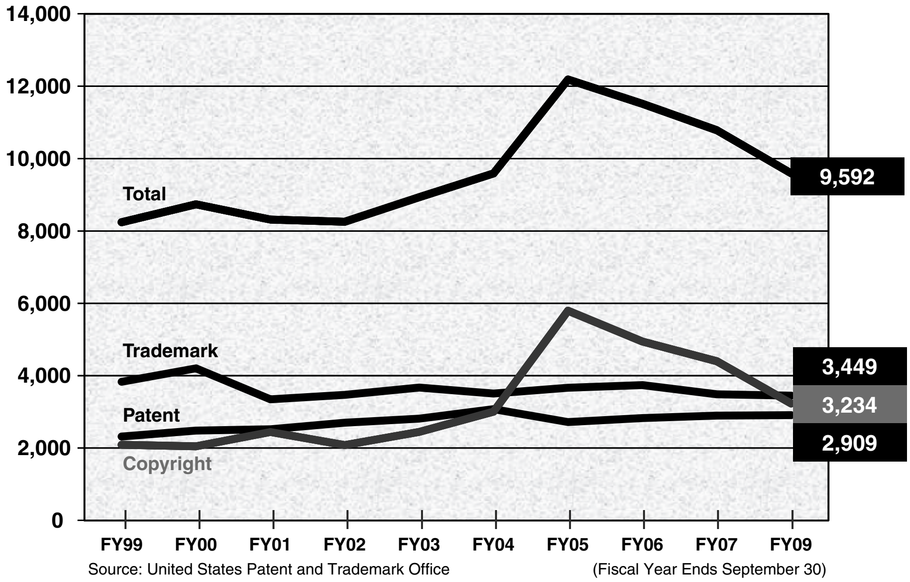

FIGURE 1.1 Intellectual Property Cases Commenced in U.S. District Courts, FY 1999–FY 2008

Source: 2008 Intellectual Property Statistics FTI Consulting, Inc. (March 2009), available at www.fticonsulting.com/en_us/resources/Documents/2008%20Intellectual%20Property%20Statistics.pdf (last visited on February 18, 2010).

assets to create new businesses and market their technologies."[11] Gone are the days when software code was protected merely by copyright laws as a defensive strategy.[12] Today, software code is protected through both copyrights[13] and patents,[14] and then leveraged through licensing. Companies elect to patent innovative processes now to garner greater negotiation power as the umbrella of protection has significantly expanded.

In 2006, the last year that the U.S. economy grew in all four quarters, companies with intellectual property assets represented 40 percent of the growth for that year.[15] Undeterred by the subsequent economic downturn, companies continue to increase their ownership of valuable intellectual property, particularly patents,[16] because such assets can translate into significant value for their owners.[17]

Statistics over the last decade strongly suggest that a shift is well underway in corporate attitudes toward acquiring, valuing, and leveraging their intellectual property rights.[18] Intellectual property rights have gone beyond being mere objects of defense strategies, to revenue-earning-core-business-assets requiring special organization and exploitation techniques.

Operational Strategies, Structural Aspects, and Ownership Issues

Traditional intellectual property strategies were aimed at "understanding what inventions to file and in what countries to file them," and assumed that "all key stakeholders have the same point of view . . . on the strategy."[19] The shifting paradigm over the last decade has helped develop numerous strategies for the management of intellectual property assets in the corporate world. Each one is complex and dependent on a number of factors such as the industry, size, global presence, and so forth. The results of a study of 34 companies from eight different industries concluded that "it appears difficult to find a one-size-fits-all strategy for intellectual property at the business-unit level."[20] From a structural aspect, strategy sessions should "involve the corporate, business-unit and functional levels of the organization" in order to properly execute on "IP generation to enforcement."[21]

The two main concerns that dominate the management of intellectual property are legal and business issues. The legal issues related to corporate management most frequently pertain to intellectual property, antitrust and taxation matters. The business concerns pertain to strategically developing management structures and plans, as well as appointing appropriate personnel to play their respective roles to maximize the potential in the intellectual property assets.

Roles: Legal versus Business

> *IP management has dramatically shifted from a purely legal concern to a pervasive business interest that is vital to corporate survival and prosperity.*[22]

Legal professionals are responsible for identifying/selecting, obtaining, protecting, and maintaining the rights in a company's intellectual property. A lawyer's expertise is useful in determining which intellectual property right to obtain[23]—or, if the type of intellectual property right is clear, then the extent of protection that might be necessary.[24] Creating and establishing intellectual property rights is obviously an important foundational role, but maximizing profits from an intellectual property portfolio is not really a lawyer's expertise.[25] As stated by Stephen Fox, "Licensing works well when placed in a business activity that is accountable for profit and loss, rather than in the legal department, which is an expense center."[26]

Intellectual property management is, therefore, a complex task involving the identification of business potential, determination of appropriate business relations that will best leverage the asset's potential, and developing and maintaining relations crucial to such management. Therefore, even though such management is carried out in consultation with the legal department, this is best assigned as a core business role.

Strategies and Structures for the Management of Intellectual Property Rights

While it might be true that companies require managers who "understand (and believe in) IP,"[27] the mere ability to create strategies to manage intellectual property rights is not sufficient. In order to have effective intellectual property rights management, strategies must be accompanied by effective management structures and implementation tools.[28]

Organizational structures governing the management of intellectual property rights are generally either "centralized or decentralized."[29]

In a centralized structure, "decisions are made centrally by a few individuals with others providing support."[30] In such a structure, decisions regarding the management of intellectual property rights are determined at the top level of an organization. Once determined, designated persons/departments are delegated the task of implementing those decisions.

In a decentralized structure, there are "multiple, potentially competing decision makers" where "any firm or individual may decide to undertake a new project."[31] In such a structure, the decision-making process is localized at particular levels of the organization.

Economic literature purportedly favors "decentralized decision structures in economic systems, based on the observation that free-market economies perform better than planned, centralized economies."[32] However, centralized structures can be shaped through policy implementations and offer the lure of lower risk.[33] That being said, a company's decision to adopt either model is dependent on a number of factors, as illustrated here.

Centralized IP Management Structure

> *Intellectual Property Management at IBM is centralized at corporate. The mission: protect and maximize value, a responsibility that goes beyond licensing.*[34]

A centralized intellectual property management structure is "appropriate when the IP is relatively complex, involving multiple licensing issues and/or potential future litigation issues" or where the intellectual property "can be easily accessed from

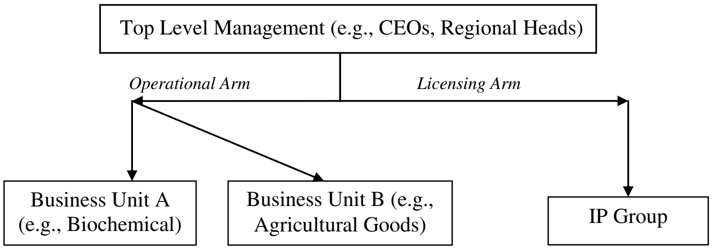

FIGURE 1.2 Centralized IP Model

outside the business unit."[35] As illustrated by Figure 1.2, a "central IP group reports directly to corporate headquarters and manages IP."[36] The IP group receives its orders from the top level executives regarding the management of the corporation's intellectual property rights and coordinates with separate business units and third parties to facilitate various strategic IP-related alliances or arrangements such as licensing and joint ventures.

A centralized management structure is advantageous as it avoids duplication and waste because a single department is delegated the task of managing the company's intellectual property rights and maintaining a network of potential licensees. On the other hand, it has been argued that a centralized system would be inefficient because "no central planner can possibly have all of the necessary local and national information to make the right decisions."[37] Despite such arguments, companies have devised and implemented successful centralized IP management structures.

For instance, IBM pioneered a patent licensing strategy[38] and management model that is centralized at corporate.[39] Its strategy was to increase its patent portfolio by maximizing trade of IP with others. In order to achieve this, IBM entered into cross-licensing agreements[40] with third parties for the exchange of their respective intellectual property rights. This permitted either party to develop products covering the other's intellectual property right without the fear of an intellectual property rights infringement lawsuit. It was through cross-licensing that IBM gave its "engineering community greater freedom of action" and shortened its time to market.[41] Structurally, IBM's IP group is split into technology, legal, and business, and is comprised of a combination of lawyers, inventors, salespersons, licensing executives, and other businesspeople.[42] In addition to this structural setup, IBM uses a tracking system to supplement its efforts in having a successful patent licensing strategy. IBM's tracking system enables it to determine which patents have "periodically become subject to government-levied maintenance fees,"[43] and which are valuable and worth pursuing, providing the ability to "drop the rest."[44] IBM's successful patent licensing methodology can therefore be attributed to its strategy to expand, its comprehensive structural support that is centralized, and its supplementary measures to achieve its strategy.

Decentralized IP Management Structure

A decentralized intellectual property management structure is useful for entities where "there is no strong need to leverage know-how across the business units and

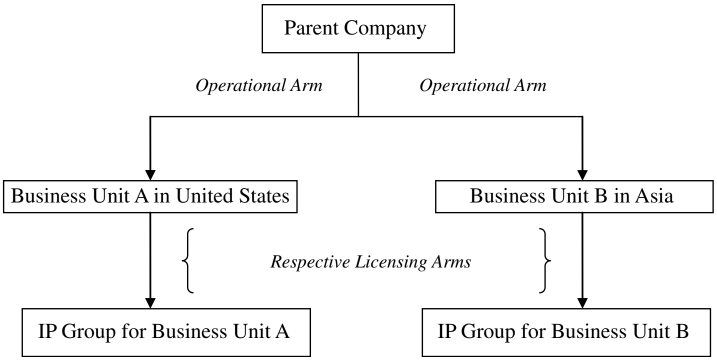

FIGURE 1.3 Decentralized IP Model

the IP issues encountered by the business units are not complex."[45] As illustrated in Figure 1.3, in a decentralized system "each business unit is responsible for its own IP and devotes resources as needed."[46] Additionally, in a decentralized setup, decisions are made at the local level of the organization, resulting in greater employee involvement and input.

For instance, Nestlé S.A. (Nestlé), the parent company located in Switzerland, has 52 operating entities in various countries, including the United States.[47] As regards managing its vast empire of intellectual property, Nestlé follows a complex decentralized structure.[48] Nestlé's intellectual property rights are managed by subsidiaries called Société des Produits Nestlé S.A. (Société) and Nestec, S.A. (Nestec). Société and Nestec own many of Nestlé's trademarks (such as Kit-Kat®) and patents, as well as much of its technical know-how, which they license to various operating entities.[49] In return, the operating entities remit periodic royalty payments to Société or Nestec, as the case may be.[50] This intellectual property management structure is further subdivided by two other entities–Strategic Business Units (SBU) and Strategic Generating Demand Unit (SGDU).[51] SBU concentrates on product development and trademark fidelity for Nestlé's strategic marks[52] and is productcentric.[53] SGDU develops the marketing strategies and determines appeals in geographic markets.[54]

As regards Nestlé's regional presence, operating entities often structure their intellectual property rights management strategies based on regional needs and responses. For instance, Nestlé U.S.A. has a separate identity, and an independent SBU and SGDU that is responsible for managing Nestlé U.S.A.'s day-to-day operations,[55] and for developing and managing its marketing responsibilities.[56] Within this decentralized setup, Nestlé subsidiaries keep apprised of Nestlé U.S.A.'s intellectual property issues and development strategies through personnel called regional intellectual property advisors (RIPAs). However, these RIPAs are employed by Nestlé U.S.A.,[57] and Nestlé does not control the terms of RIPAs' employment agreements or conditions of the licensing agreements that RIPAs enforce. This is one of the indicators that Nestlé's intellectual property management structure is decentralized, and that Nestlé U.S.A. has significant independence when it comes to its intellectual property rights management.

Additionally, in a recent lawsuit it was determined that although Nestlé had the right to control its licensee's activities with respect to the use of its mark through its subsidiaries, its subsidiaries failed to exercise adequate control, and Nestlé[58] merely received the license fees.[59] Such a passive flow of funds from the operating entities to Nestlé did not provide Nestlé with the requisite level of control over the operating entities.[60] The court also found that corporate guidelines developed by Nestlé's SGDU were general guidelines, not corporate mandates that the operating entities were required to follow.[61] The operating entities had their own SGDUs that provided advice based on the relevant regional needs. As a result, Nestlé was found to be a mere beneficial owner with no direct control over the operating entities and their respective SGDUs or SBUs, making Nestlé's intellectual property management structure affirmably decentralized, with its operating entities enjoying a certain amount of corporate independence and flexibility.

Other Management Options

As stated earlier, intellectual property licensing used to be managed solely by attorneys and/or legal departments. An interesting change in this trend is where a company's intellectual property rights are handled by Intellectual Property Holding Companies (IPHCs).

An IPHC is created when "a parent company, the original owner of the intellectual property, establishes a wholly owned subsidiary as a holding company and transfers ownership of its intellectual property company to this newly-created holding company."[62] An IPHC is different from a centralized IP management group set up within a corporation, as in the case of the latter there is no transfer of ownership rights of the company's intellectual property rights.

In essence, an IPHC facilitates the delineation of the management of intellectual property rights to a centralized location for more efficient operation. The primary responsibility of an IPHC is the maintenance and management of the intellectual property rights, and collecting and allocating the income accrued from its licensee (i.e., the parent company and third party licensees) in the form of royalties. For example, Ford Global Technologies, LLC (FGTL) is the wholly owned subsidiary of the Ford Motor Company. FGTL manages the intellectual property rights for the Ford Motor Company, including all aspects of patent, copyright, and trademark licensing.[63] Further, a special team called The Technology Commercialization (TC) Team of FGTL is responsible for marketing and licensing Ford's technology and other proprietary rights for use within and outside the automotive industry.[64] Therefore, to be effective in its operational goals, an IPHC should be an entity that is separate from the parent company, and its operations should be controlled by officers who are independent of the control of the operating company.[65]

A classic example of a hugely successful centralized system for the control and management of intellectual property rights is demonstrated by Hewlett Packard's (HP) Intellectual Property Licensing Group.[66] This group was set up as a wholly owned company to enhance the "visibility, coordination and control of the company's IP assets."[67] In 2003, prior to the launch of its Intellectual Property Licensing Group, the HP board determined that its strategy needed to include "protection" and generation of "value beyond traditional product revenue."[68] To effectuate this strategy, it moved "HP IP into a wholly owned affiliate, required central approval for any out-licensing of HP intellectual property or non-asset agreement and created the HP licensing function."[69] The HP intellectual property licensing function included goals for better protection and strategic utilization of the intangible assets.[70]

At present, the HP Licensing group coordinates across various departments to facilitate licensing needs, including facilitating an appropriate licensing mix of patents, trademarks, copyrights, and know-how, as well as transferring technology to help the licensee's business needs. Intellectual property licensing within HP is broken into separate business groups such as Technology Transfer and Licensing, Patent Licensing, and Brand Licensing.[71] Brand licensing arrangements with HP "typically require an upfront payment, minimum royalty commitment, approved business plan, agreed-upon business metrics, and customary indemnification and insurance provisions.[72] Both parties monitor the licensee's performance on an ongoing basis to ensure that the licensee's business execution is consistent with the standards of the HP brand."[73] Besides the benefits of dedicated and centralized intellectual property rights management, IPHCs have been useful in saving corporations significant state income taxes.[74] For this, a holding company should be incorporated in a location where the income from the exploitation of intangible assets is not taxable.[75] The royalty income will then be considered tax-free for the holding company, and the parent company may claim the royalties paid to the holding company as a tax-deductible business expense.[76] However, an IPHC must not be incorporated merely to avail of taxation benefits; it must be able to justify a substantial business purpose.[77]

In sum, for corporations with large intellectual property portfolios, an IPHC structure may provide significant operational efficiencies and tax benefits.[78]

Strategies for Restructuring

In order to best exploit their intellectual property rights, companies also frequently consider restructuring their ownership and management of intellectual property rights. For instance, prior to reorganizing its structure and setting up the Licensing Group, HP undertook the task of analyzing its portfolio to determine and develop various avenues of revenue generation through licensing.[79] A portfolio review is required to identify and segregate the intellectual property rights that have business potential versus the ones that do not.[80] In HP's case, Joseph Beyers, Vice President, Intellectual Property Licensing, HP, noted that the appropriate determinants are, "the reasons we might want to patent our innovations, . . . what we might want to use in our own products, what we share with others, what we might license to generate revenue, and what we decide we must keep for ourselves."[81] In particular, Mr. Beyers states that HP has "special purpose units" that licensed patents externally and thereafter shared the revenue with the corporation's business units.[82] Most successful organizations consider various strategies for licensing their intangible assets, and in such situations disputes between different business units are bound to arise regarding how best to leverage the assets' potential. At HP headquarters, there is a "specific escalation process" for dispute resolution[83] and it is addressed within a hierarchical system and rarely reaches the chairman and CEO.[84]

Restructuring can be a cost-effective method for streamlining the process by which a company's intellectual property rights can be utilized. An effective intellectual property strategy must consider the intended use of the intellectual property right(s) and the key players who will help develop and leverage it. These include, among others, legal counsel to ensure worldwide legal protection, inventors to create novel products based on the intellectual property rights, business developers to create and maintain commercial liaisons, and marketing professionals to help position the product in the marketplace.

Ownership Issues

Intellectual property rights can be owned by the author/inventor/creator, an assignee,[85] the company employing the author/inventor/creator,[86] under a strategic alliance, or even by an IPHC. However, ownership may not be acquired through licensing arrangements as a license merely transfers a "bundle of rights which is less than the entire ownership interest, e.g., rights that may be limited as to time, geographical area, or field of use."[87] Thus, a licensee merely has the right to exercise certain rights as defined by the license agreement. For example, in a trademark licensing arrangement, the licensee's use of the mark is controlled by the owner of the trademark, but there are no ownership implications.[88] In such a situation, the licensee's use inures to the benefit of the licensor-owner of the mark and the licensee acquires no ownership rights in the mark itself.[89] Therefore, a trademark licensee will merely have the right to use the trademark, subject to the standards set by the trademark licensor-owner as regards the use of such mark.[90]

Ownership of the intellectual property right(s) entails significant advantages. An owner of intellectual property is able to exercise associated rights exclusively as well as prevent others from the unauthorized use of its intellectual property. An owner can enforce its intellectual property rights against a third party, prosecute, and file a patent[91] or trademark application at the United States Patent and Trademark Office (USPTO), as well as foreign patent and trademark offices, where appropriate, and have the right to attract and negotiate with potential investors by virtue of being the record title owner of the particular intellectual property right.[92] Without ownership or being an assignee of the intellectual property rights, broad protection and the means of exploitation will likely be unavailable. However, in certain circumstances, the exercise of the intellectual property right owned may still result in the infringement on another's intellectual property right.[93] For instance, particular caution must be exercised in collaborative alliances that use preexisting intellectual property for developing an extension or improvement to an original product. Here, the lack of properly licensed preexisting rights can limit the value of the ownership of the new rights.[94]

Ownership of intellectual property rights is, therefore, crucial for companies in order to optimally utilize their intangible asset(s). Business strategies for exploiting intellectual property assets must include the consideration of whether owning the intellectual property right is advantageous, or even necessary. For example, where the goal is merely to use and exploit the intellectual property right, ownership of intellectual property rights may not be desirable. Instead, being a licensee of requisite rights, including the right to sub-license, may be sufficient.[95] On the other hand, a company may retain ownership of its intellectual property rights to assess, develop, and implement a business strategy that will best utilize those rights. For instance, a company's business strategy might contemplate ownership for purposes such as developing a portfolio, diversifying its product, or even acquiring newer intellectual property rights to gain a competitive edge.[96]

Developing a company's portfolio is an "aggressive IP strategy" essential for the protection of the company's core products and "commercial interests" and also for protecting intellectual property rights that "may be of interest to non-competing companies."[97] Companies strategically develop their intellectual property portfolio in order to generate income from "the licensing, sale, or commercialization of the IP-protected products or services that may significantly improve the company's market share or profit margins."[98] Companies also leverage their intellectual property portfolio to "maximize the return for investors in the event of a sale, merger or acquisition, or even dissolution."[99]

Product diversification, another important consideration, is crucial to the sustainability of a corporation's business. Product diversification entails strategies for expanding the applicability of the product for direct sale to consumers, as well as for developing and capturing a varied industry appeal. For instance, Canon started with the dream of developing a high quality camera in 1933.[100] Today, through its continued diversification of its products, Canon is a world leader in "professional business, consumer and industrial imaging equipment and information systems."[101]

Strategic alliances is an additional means of leveraging intellectual property rights.[102] Corporations utilize legal tools such as joint venture agreements, mergers and acquisitions, and product development agreements to realize the business potential of their intellectual property rights.

However, a corporation should not assume that ownership of intellectual property rights will automatically lead to significant monetary returns. To ensure a viable return on investment, the benefits of ownership must be weighed against factors such as associated costs, relevant markets, the strength of the intellectual property rights, competitive advantage, jurisdictions, and enforcement strategies.[103]

Costs associated with owning intellectual property include the application, filing, prosecuting, registration and maintenance fees, and enforcement and transaction costs, to name a few. In the United States, a patent is issued by the United States Patent and Trademark Office (USPTO) and the process up to registration itself entails significant costs.[104] Trademark rights may be protectable through common law,[105] but a federal registration, though incurring filing, prosecution, and maintenance costs, bears many advantages.[106] Copyright protection is automatic upon the creation of the work in a fixed and tangible medium, but a registration is required prior to initiating litigation.[107] In addition to these initial costs, transaction costs (such as fees incurred during the negotiation of a licensing agreement) are incurred for developing and licensing of intellectual property rights. Currently, there is a growing trend for multiple entities to align their resources to develop new technology.[108] Though aligning resources, such as sharing costs or pooling investments, might be an important strategic decision, the process of identifying and developing intellectual property rights as a result may become "slower, with greater set-up costs."[109] Transaction costs associated with identifying the existence or ownership of the intellectual property right, determining which intellectual property right can best be leveraged, "bargaining, contracting, maintaining relationships" and negotiating agreements with the partners[110] can be significant and unavoidable.[111] In case of copyrights, though not the most efficient method to leverage an asset, government implemented compulsory licensing schemes may be adopted where the intent is to eliminate negotiation and associated costs[112].

In any event, to avail of the benefits of owning intellectual property rights, companies should first conduct an intellectual property audit in order to take stock of their inventory of trademarks, copyrights, and patents owned, and determine the potential for each through proper valuation.[113]

When considering relevant markets for intellectual property rights, companies should consider both present and potential markets for their products. For existing products, corporations must strategically determine whether the relevant market will ensure a continued or new stream of revenue, with the least amount of capital. An analysis would have to be made of the consumer base, market size, competitors, trends, and any gaps in the market that may be leveraged beneficially.

The issue of ownership involves challenges posed by different structural arrangements. Unlike ownership issues faced by single entities, intellectual property rights owned by multiple entities create additional challenges. Where a company transfers its intellectual property rights to an IPHC, a relatively simple ownership structure results, akin to ownership by the parent company. Here, the IPHC becomes the owner of the intellectual property rights, licensing them back to the parent(s) for a royalty.[114] By virtue of such ownership, the IPHC is entitled to enforce the rights against any unauthorized third party usage.[115] With IPHCs, it is important to note that ownership must be clearly delineated and the transferred rights must not be in "gross."[116]

Ownership issues can become more complicated when multiple entities are involved. This typically occurs when the intellectual property is acquired through purchase, merger or acquisition, joint venture, or other strategic alliance.[117] The ownership of intellectual property rights is particularly complex in cases of joint ownership. Such situations provide a fertile ground for potential problems. Inconsistencies in joint ownership may develop from royalty sharing issues (i.e., a product is covered by copyright and patents) or jurisdictional issues (i.e., a product is marketed in a country where the laws are inconsistent with U.S. law). For example, under U.S. patent law, "any joint owner can use the patent without permission of other joint owners, the exploiting joint owner has no duty to share royalties with any other joint owner, and to enforce a patent, all joint owners must join the suit," but the law in the United Kingdom is directly opposite.[118] In the United Kingdom, in the absence of an agreement to the contrary, each joint owner has the right to exploit the intellectual property right created jointly, provided the other joint owner's consent is obtained.[119] Therefore, although joint ownership is a common feature in joint ventures, and agreements with freelancers and subcontractors, it is important to ensure that the relevant contractual provisions (i.e., ownership, geographic scope, etc.) are carefully drafted to identify the respective rights and anticipate potential pitfalls.

Maximizing the Potential

Through strategic deployment of intellectual property assets, companies can benefit shareholders by protecting market shares, creating cash flow and new markets for existing products through strategic alliances, and taking advantage of available tax benefits.

However, in the course of identifying methods of leveraging a company's intellectual property assets, it can be very beneficial to conduct an intellectual property audit in order to ascertain the current value of the intellectual property.[120] Once such value has been determined, the next step is to determine the most appropriate method for leveraging the assets.

Registration and Prosecution

Some intellectual property rights may exist without registration. For instance, a copyright may exist in the subject matter so long as the material is original and fixed in a tangible medium.[121] In the United States, trademark rights are conferred by the use of an adopted mark in commerce. A common law trademark right extends only as far as the geographic scope of the market where the mark is being used. Therefore, unregistered marks in certain jurisdictions can be protectable under common law, but enforceability of such mark will always be limited by the geographic scope of its use. Similarly, in the United Kingdom, owners of trademarks who are able to prove substantial use of a mark, may succeed in a passing-off action, but such rights are limited in scope.[122] On the other hand, although trade secrets may be protected without registration, rights in a useful invention or an ornamental design only arise from obtaining a patent from the USPTO.

Successful companies are, therefore, quick to recognize that registration of their intellectual property rights may bring many monetary and business advantages. With a patent right, a company can exclude others from developing, using, selling or offering to sell, or importing their patented invention into the United States for a limited duration. Companies use this monopoly to charge higher prices and increase their profit margin, and also reduce competition. As regards trademarks and copyrights, companies require valid registrations to leverage the economic value of the intellectual property rights in an administrative proceeding or in a court of law.[123] However, the mere filing of a copyright application does not satisfy the jurisdictional prerequisite that a copyright be registered prior to initiating a lawsuit.[124]

The registration of intellectual property rights may take multiple forms. A copyright registration protects cartoon characters as an artistic work, for example, but the same work can be protected under trademark law if the characters serve as source identifiers. Warner Bros. Entertainment registers its cartoon characters such as Roadrunner, Tweety, and Daffy Duck under both copyright and trademark laws.[125] This approach not only expands the licensing opportunities, but also helps increase the longevity of protection. In the United States, copyright law provides for a long, albeit definite period of protection,[126] but trademark law provides for an indefinite period of protection, provided periodic renewals are effected and the mark remains in use.[127] Therefore, the artistic expression of the work can be protected for a specified number of years under copyright law, and the elements that function as source identifiers may theoretically be protected in perpetuity under trademark laws.

Strategic Alliances

Companies often seek strategic alliances in order to maximize the value of their intellectual property portfolio. These alliances can be developed through licensing, joint ventures, merger and acquisitions (M&A), and cooperative research and development (R&D) agreements.

LICENSING[128]

> *A license is a way of extending the value of a brand to a variety of disparate goods and services.*[129]

Licensing enables companies to transfer limited usage rights of their intellectual property to a third party without transferring any ownership right to such third party.[130]

Historically, licensing was conducted primarily on an ad hoc basis and was not considered as a significant source of income.[131] However, this perspective changed significantly as corporations realized that intellectual property licensing was a multifaceted tool for generating income and for garnering higher consideration in mergers and acquisitions, or divestures.[132] In 2003, the aggregate corporate sales for companies based on their operating norms for trademark and brand licensing operations were over $225 billion.[133] However, due to the economic climate in 2008, licensing as a means for income generation admittedly suffered. For instance, in 2008, the total royalties collected by brand owners declined due to the decrease in consumer spending.[134] Nonetheless, despite this economic downturn, intellectual property licensing continues to generate significant revenues for many major international companies.[135]

Licensing also helps create new income streams and market opportunities. When companies license one form of intellectual property to develop new products, the new products may in turn be licensed as other forms of intellectual property. For instance, Twentieth Century Fox Licensing & Merchandising (Fox Licensing) launched its most recent and massive licensing and merchandising campaign to introduce "125 products across four key categories: video games, toys, apparel and publishing," in collaboration with "Ubisoft, Mattel, JEM, HarperCollins and Abrams."[136] These licensing deals are expected to result in the creation of new products such as video games, collectible items (e.g., statuettes, life-size busts), clothing, and books. Further, each licensing deal will envision multiple forms of intellectual property that are separate from the intellectual property right in the original product. The new products will have copyright protection for the new artwork, textual work, and software, and trademark rights for the merchandisable articles, branding on videogames, and so forth.

Despite the many benefits of licensing arrangements, a licensee should consider certain risks associated with licensing that a licensor might not be obligated to consider. These risks include return on capital, manufacture and distribution, market shifts in taste, emergence of competition, and rival technologies.[137] Therefore, a licensee would need to ascertain whether licensing the intellectual property right would produce at least "an expected *incremental* economic benefit" from exploiting the work and "after accounting for these risks."[138]

All forms of intellectual property are licensable, including copyrights, patents, and trademarks, provided that such rights are owned and eligible for protection under the law. Common types of license agreements include publishing (e.g., for novels), entertainment (e.g., for live performances), technology (e.g., for product development), and patent and trademark licensing (e.g., for co-branding).

Copyright licensing is often encountered in the entertainment and technology industries. In the entertainment industry, copyrights are relevant to all forms of artwork such as visual/graphical, textual, or other works. Copyright licensing in the entertainment industry is particularly lucrative in this electronically driven day and age, as characters popularized by electronic as well as print media offer ample merchandizing opportunities to companies. Licensing of the copyright is effected by transferring a limited number of rights in a work or transferring all the rights for a limited duration.[139] For instance, an author of a novel could license reproduction and distribution rights to the publisher, but not license the right to make derivative works. The publisher would then have the right to make copies and distribute the same, but not make adaptations, translations, movies, or screenplays. An exclusive copyright license must be in writing to be enforceable.[140] In the technology industry, copyrights are often acquired to protect software. However, like other copyright licenses, a copyright software license would also need to be defined by the intended scope of exploitation. For instance, if the intended purpose is merely to permit a specific technological use, an end user license agreement (EULA) would suffice.[141] However, the same would be insufficient if the purpose is to allow for further development of the work.[142] Licensing in the technology industry is undertaken by various methods, including in-licensing, out-licensing, cross licensing, and securitization. In-licensing is adopted to "quickly fill new product pipelines" and out-licensing to minimize the risks associated with "manufacturing and distribution."[143] The latest trends in technology licensing indicate that companies are actively engaging in cross licensing and out-licensing agreements to not only avail of the resultant monetary benefits, but also to strategically improve a firm's competitive position.[144] Through schemes of cross licensing and out-licensing, firms may be able to prevent potential patent infringement and also develop their portfolio by acquiring existent technology owned by others.[145]

Patent licensing, like other forms of intellectual property, affords opportunities to create revenue as well as inventions through collaborations. As of 2008, patent licensing alone accounted for half a trillion dollars in annual revenue in the United States.[146] Some of the industries in which patent licensing is most common are biotech, engineering, technology, semiconductor, and pharmaceutical.

Patent licensing is relevant at multiple stages of product development. Patent claims are licensed routinely between companies, and for a multitude of purposes. Patents can be licensed for use by the business, to a third party for non-competitive use, to competitors abroad limiting the use geographically, for research and development efforts, and to aftermarket service providers.[147] The common forms of patent licenses include exclusive, non-exclusive, and cross licenses.

Broadly speaking, an exclusive patent license would bar a licensor from entering into an agreement with a third party that is similar to the agreement entered into with the exclusive licensee, or use the patent on its own behalf, unless it retains the rights to do so contractually.[148] However, in practical terms, the exclusivity in patent licenses should depend on the subject matter of what is licensed. This would enable multiple exclusive licenses of the same patent, if the terms are restricted to a particular product or field of use. For instance, a patent for LEDs could be the basis for exclusive license agreements with a car manufacturer or a a stage light manufacturer. Furthermore, as regards royalties in exclusive patent licensing agreements, a licensor may not be able to negotiate higher royalty, since the licensee is the only source of revenue.

A non-exclusive patent license permits the licensee to exercise the rights granted and provides an assurance that the licensor cannot sue him or her on grounds of infringement for uses based on the rights granted.

A cross license, as the name suggests, involves two or more parties who enter into an agreement where there is a mutual exchange of patent rights.[149] Such licenses are usually entered into so that the parties may utilize the other's patents to beneficially develop their products without the threat of litigation from the other.[150] For instance, Toyoda Gosei Co. Ltd. of Japan and Sharp Corp. entered into a cross licensing agreement where each company was permitted to "use inventions related to nitride-based LEDs and laser diodes covered by the patents owned by the respective companies in Japan and in other countries."[151] This deal is expected to ramp up the research and development efforts and also enable the companies to compete in the competitive market for LEDs.[152]

A more recent form of leveraging patents is through patent pools. Initially popular in the consumer electronics industry, patent pools are also gaining momentum with universities and in the biotechnology sector.[153] A patent pool is a "consortium of at least two companies agreeing to cross-license patents relating to a particular technology."[154] Some patent pools were initially found to violate antitrust provisions. In more recent times, patent pools are considered to "have significant pro-competitive effects and may improve a business' ability to survive this era of rapid technological innovation in a global economy"[155] as they "may be viewed as clearing blocking positions, mitigating royalty stacking, promoting the dissemination of technology, and fostering innovation by reducing the potential for, or efficacy of, hold-ups."[156] License revenues may be distributed to "contributory patent owners on a per patent basis (i.e., all patents are treated equally" in determining the basis for sharing of revenue).[157]

TRADEMARK LICENSING—SPECIAL CONCERNS Companies use trademark licensing as a tool to develop and maintain a global presence, create a secondary stream of revenue,[158] and avoid instances of consumer confusion. Companies effectuate trademark licensing through various relationships, including through a jointly owned subsidiary of multiple parent companies in a mutual trademark holding company (MTHC),[159] through licensing arrangements between the sister companies and between separately owned entities.[160] In fact, one commentator has observed that "in the absence of spinning off brands or mergers between the two parties, the only substantial way to make a dual brand ownership[161] beneficial is to set up a trademark holding company."[162]

Unlike copyright and patent licensing, trademark licensing is governed by a different set of principles. First, trademark licensing assesses (1) whether *goodwill* associated was transferred[163] and (2) whether the licensor maintains adequate *quality control*.[164]

Trademark licensing focuses on the use of the goodwill associated with the mark(s) in order to generate revenue. Goodwill is the advantage of reputation in connection with a business.[165] When licensing a trademark, it should be borne in mind that in the United States a "trademark is simply a symbol of goodwill and cannot be sold or assigned apart from the goodwill it symbolizes"[166] and, therefore, cannot be assigned "in gross."[167] A trademark can, therefore, be transferred only if accompanied with the associated goodwill. However, companies should identify whether goodwill needs to be transferred in other jurisdictions, as not all jurisdictions abide by this principle.[168]

A licensor must exercise quality control over the licensee's use of the licensed mark to avoid loss of its rights in the trademark.[169] The notion of quality control stems from the need to obviate deception on the public.[170] Quality control is maintained by ensuring that the nature and quality of goods and services under the licensed mark is sufficiently controlled by the licensor so that the consuming public can expect consistency and predictability of the quality of the goods/services associated with a mark.[171] The presence of a mere right to control the quality is insufficient; there must be actual control.[172] As a means to better practice, licensing contracts should include provisions regarding the licensor's express right to control the quality of the licensee's products since it is the responsibility of the licensor to maintain the quality associated with its mark.[173] However, the lack of such a contractual provision regarding the licensor's right to inspect and supervise the licensee's operations is not fatal to the question of control.[174] If there is a special relationship between the licensor and licensee, a licensor may justifiably rely on its licensee for quality control.[175] Where there is a failure to exercise adequate quality control, significant risks to trademark rights may result, including cancellation of the registration under which the mark is licensed or the inability to enforce a trademark right against a third party.[176] However, it is to be noted that the standards for quality control are not universally applicable and differ from product to product, and industry to industry.[177] In determining the adequacy of quality control, the facts of each case must be considered.[178] Generally, a mark may be deemed abandoned if the license is not properly policed,[179] or through "naked licensing."[180] Naked licensing results when the licensor does not exercise sufficient control over the licensee's use of the mark, and the mark no longer is a source identifier or a means of quality assurance.[181]

OTHER RISKS AND ISSUES In addition to ensuring the exercise of quality control, to engage in sound licensing practices in the United States, companies must police the marketplace to prevent competing uses by the licensees, related entities, or third parties where such uses create a likelihood of confusion, dilution, separation from the associated goodwill, or the loss of distinctive character of the mark that is being used or licensed.[182]

There is a likelihood of consumer confusion in a business relationship where the companies combine their existing marks into a new composite mark. Joint owners must take steps to minimize the risk of such consumer confusion by: (1) setting forth the relationship of the parties to establish their actions in tandem; (2) establishing control and supervisory guidelines over the use of the composite mark; (3) discontinuing use of the composite mark, including its possible use as a corporate or trade name, upon termination of the business relationship; (4) prohibiting the use of any of the elements of the composite marks in a stand-alone fashion for the duration of the license; (5) requiring licensing and demarcation of ownership rights and registration status of individually owned elements whenever the composite mark is used. [183]

A trademark can also suffer due to dilution of the mark through blurring or tarnishment.[184] Dilution by blurring is defined as the "association arising from the similarity between the mark or trade name and a famous mark that impairs the distinctiveness of the famous mark."[185] Dilution by tarnishment is defined as an "association arising from the similarity between the mark or trade name and a famous mark that harms the reputation of the famous mark."[186] When a famous mark is the basis of the business relationship, dilution by multiple licensees can occur if the manner in which the mark is used is inconsistent with the equity.[187] For instance, a licensor uses its trademark on a single good such as cereal, but it's licensees use the trademark on different goods such as clothing items or sporting goods. This would result in dilution due to the inconsistent usage by the multiple licensees.

In course of licensing a trademark, companies must include provisions to ensure that the distinctiveness of the mark is maintained.[188] A licensor should not permit the licensee to use multiple licensed marks on a single product or service because such activity results in a loss of distinctiveness of each element.[189] Consumers will be unable to identify the separate and distinct impression, function, or purpose associated with the mark.

Joint Ventures, Mergers and Acquisition

Besides licensing, companies utilize other methodologies to create monetarily efficient alliances that help best leverage their intellectual property assets.

JOINT VENTURES Companies have long used partnership strategies that offer benefits to the participating organizations. A joint venture (JV) is one such vehicle that "represents a collaborative effort between companies—who may or may not be competitors—to achieve a particular end (e.g., joint research and development, production of an individual product, or efficient joint purchasing)."[190] It may encompass a myriad of business processes, such as the joint cooperation over "research and development, manufacturing, distribution, and sales and marketing."[191] Even though such ventures are often more complex than mergers and acquisitions and "tend to end earlier than expected,"[192] there are a number of advantages. Companies are able to "combine . . . the strengths, expertise, technologies, and know-how of separate [firms] along with [the] sharing of investment costs and risks."[193] A joint venture may be structured to jointly develop a product from scratch, through research and development, or even develop upon a product that might have been acquired by a license agreement. Another typical scenario is where "if the smaller organization doesn't have cash, it could give the larger organization a share in future patent revenues, as well as the right to use the patented technologies."[194] Needless to say, a multitude of intellectual property such as patentable inventions, software codes, reports, trade secrets, or trademarks are developed through such collaboration. Ownership of intellectual property is central to the structural aspects of a joint venture agreement. Companies may retain ownership of preexisting intellectual property, allocate ownership to the respective companies, or own it jointly. However, during such alliances newer intellectual property rights are created based on modified business needs, and the terms of the contract between the parties may not address ownership issues of such newly created intellectual property rights.[195] Joint ventures also suffer from the inherent risk of accessible technology codes. A collaborating company will have access to the other company's technology and consequently, the ability to engineer the product independently. Therefore, joint venture agreements must be structured carefully and include contractual provisions that address ownership, confidentiality, the rights and terms of transfer, term, territory, and scope.

MERGERS AND ACQUISITIONS[196] Companies normally seek to acquire intellectual property rights that would arm them with the ability to create competitively superior products and services that have the potential of maximizing revenue. With such intellectual property rights, companies may successfully stifle competition and gain a significant competitive advantage. Companies often "divest certain intangible assets for a premium at an opportune time" to "yield significant financial benefit" through consolidation.[197] The company that acquires another's intellectual property can benefit through its use for expansion of the business, with an industry specific outlook, or to "simply improve their performance and competitiveness."[198]

In the course of the sale of assets, trademarks and associated goodwill may be acquired even though the transfer agreement does not mention the trademark or other intellectual property rights.[199] However, such automatic inclusion will not occur where the agreement is between a parent company and a wholly owned subsidiary, unless specifically transferred by way of such agreement.[200]

Securitization as Funding for Operations or Purchases[201]

In recent years, intellectual property backed securitization has emerged as an alternate method of financing. The value of securitization backed transactions increased from \$380 million in 1997 to \$1.13 billion in 2000.[202] Intellectual property backed securitization can generate working capital in a short period of time, and result in "other than cash benefits" such as brand management and protection.[203]

Such securitization takes place when the intellectual property "owner transfers the intellectual property to the investors who, in turn, provide lump sum capital to the" intellectual property owner "and rely on the expected royalty stream from the IP to serve as their return."[204] Intellectual property securitization is, therefore, "speculative" and contemplates a "future flow of revenue" from the intangible assets because "they are based on 'rights' to something that might occur in the future (i.e., future sales from the brand)."[205]

Intellectual property such as trademarks, copyrights, and patents may be securitized if these assets demonstrate a "predictable cash flow or even future receivables that are exclusive."[206] The most famous case of copyright securitization is the Bowie Bond. David Bowie raised \$55 million in 1997 through the issue of bonds backed by future royalties from 25 albums that he had recorded prior to 1990.[207] More recently, in 2006, the Dunkin' Brands Inc. were securitized to monetize the company's cash flow.[208] The securitization deal considered "multiple cash flow streams from three distinct brands across multiple jurisdictions. The sources of revenue included franchise royalty fees, licensing fees, lease payments, and other valuable cash flows."[209] Following the financial crisis in 2008, Morgan Stanley launched an intellectual property securitization deal for Vertex Pharmaceuticals worth $250 million.[210] This deal is expected to help "investors get repaid while the drug is still in development."[211] The companies retain their "assets—any upside from other sales and license agreements, without the need to dilute their equity."[212] Additionally, because the securitization was set up with the help of a special purpose vehicle, companies do not bear the risk in case the drug fails.[213]

A relatively new form of IP-backed securitization is brand securitization. A brand securitization transaction requires either the actual sale of the brand to a third party or transference of the risks associated with the brand to the third party, while retaining the ownership of the brand title.[214] The purpose of brand securitization may be either to generate working capital or to ensure other than cash benefits such as effective brand management.[215] For instance, Sears Holding Corp. (Sears) set a "precedent for companies worldwide" by successfully engaging in one of the biggest brand securitization deals.[216] It securitized its core organic brands such as Kenmore, Craftsman, and Die Hard, to one of its wholly owned subsidiaries in Bermuda for "other than cash benefits" such as brand protection, brand management flexibility, and tax and cash benefits. Through such a strategic move, Sears ensured that its securitized core brands were safeguarded in the event Sears itself was subject to any bankruptcy proceedings.[217]

Intellectual property securitization is not a highly utilized tool for generating revenue, as "securitization of assets takes a lot of time and energy, and can be an expensive process. Therefore, intellectual property securitization is not very efficient as an acquisition financing tool, however, it can be as a long-term financing tool [if it achieves a lower cost of capital]."[218]

Tax Considerations[219]

Intellectual property is a taxable asset simply because it is the "primary fuel of the U.S. economic regime."[220]

In developing intercompany structures for the ownership, development, and management of intellectual property, companies must consider taxation issues that will affect intercompany transfers[221] or cost-sharing arrangements.[222] Through cost sharing arrangements, companies elect to bear the costs and risks in exchange for a specified interest in the intangible property, and are able to defer indefinitely their related U.S. taxes.[223] For instance, in 2009 Maxim Integrated Products, one of the most profitable companies in the semiconductor industry, reported revenue of $1.646 billion.[224] To facilitate utilization of its intellectual property by foreign subsidiaries, Maxim Integrated adopted a buy-in and cost sharing arrangement with the foreign subsidiary that pays the U.S. entity for certain operating expenses. Initially, "the cost sharing to the U.S. entity is greater than the benefit achieved by the foreign subsidiary,"[225] but it is expected that the taxes that will be levied as an expense for the U.S. entity will eventually be offset by tax savings on the revenue and profit earned internationally.

Assigning the title in their intangible assets to a wholly owned IPHC, which then licenses back to its parent the right to use the intellectual property,[226] may be another efficient tax strategy. IPHCs have significant tax benefits. First, corporations have the option of setting up IPHCs in the United States without incurring federal taxes under Section 351(a) of the Internal Revenue Code.[227] The assignment of the title in intellectual property in exchange for controlling stock is not recognized as a transfer of property for income tax purposes.[228] However, the Internal Revenue Code does require that the operating company acquire at least 80 percent of the stock.[229] Second, IPHCs are usually set up in states that offer favorable taxation options. The operating company receives deductions for royalties paid under a license as a business expense, thereby reducing the company's income tax liability in its state of operation. However, taxation of IPHCs is becoming increasingly complex as states have begun to employ measures that will block this loophole.[230] A state is permitted to tax the operating company if the operating company has a "physical presence" in that state or receives incomes in exchange for the use of the license.[231]

As an alternative, companies may elect to set up organizational arms offshore to take advantage of the favorable taxation policies. This strategic move helps to develop new funding mechanisms. For instance, because royalties, a form of intellectual property revenue, "flows to the location where the IP is owned . . . significant long-term tax savings can be made from moving IP to a low-tax jurisdiction."[232] Such international venues may be *pure tax havens* where there are "no income taxes levied on local and foreign persons and corporations alike" or offer *tax-free status* to qualifying persons or corporations by distinguishing "between the taxation of locals and that of special categories of offshore persons."[233] Pure tax havens are preferable to optimally exploit intellectual property due to the flexibility they offer.[234]

By transferring ownership and management of the intellectual property to an offshore entity, a company is able to advance its intellectual property exploitation strategy and raise capital. However, various issues must be considered prior to setting up such a corporation. Besides the setup costs, a company must obtain "shareholder approval" if it is a public company, assess the "requirement and availability of professional offshore management," consult with U.S. tax counsel on how to "mitigate ultimate U.S. taxation and isolate U.S. income from the worldwide income," and also determine the appropriate timing of initiating such a setup.[235] Companies must ensure that their IPHCs overseas are safeguarded from any bankruptcy proceedings that may be instituted against the operating company and the insolvency of the operating company will not affect the IPHC's revenue.[236]

Legal Concerns—Antitrust

Intellectual property laws enable right holders to own and use their intellectual property to the exclusion of others. However, the grant of such a right is not absolute. A system of checks and balances helps keep the exclusionary nature of intellectual property rights in check. First, the historical basis for creating laws that protect intellectual property rights (i.e., the promotion of knowledge and art[237]) helps justify the grant of such rights. Second, such exclusive rights are also kept in check by antitrust laws. Although antitrust laws are designed primarily to curb anti-competitiveness and remedy unfair business practices, these laws also limit the exclusivity associated with intellectual property rights by scrutinizing the operations of companies to determine whether the ownership or use of such rights violates the spirit of productive competition. A recent effort to curb anti-competitiveness by the Federal Trade Commission (FTC) is evinced by its complaint against Intel Corp. (Intel) which alleges that Intel adopted anti-competitive measures in order to capture, maintain, and manipulate the market for Central Processing Units (CPUs) and Graphic Processing Units.[238] This action in the United States follows closely in the footsteps of the large fines levied in Europe and Korea against Intel for bullying "computer makers into buying all, or nearly all, of their [Intel's] CPUs . . . or risk losing potentially billions of dollars in rebates."[239]

It is evident that today's market has expanded through globalization, and as a consequence, many countries are harmonizing their legal norms to promote international business relations. Parallels may be drawn between the antitrust laws of the United States and the European Union. In the United States, the relevant antitrust laws are found in Section 7 of the Clayton Act, Sections 1 and 2 of the Sherman Act, and Section 5 of the Federal Trade Commission Act.[240] The Clayton Act proscribes anti-competitive mergers.[241] Sections 1 and 2 of the Sherman Act are supplementary provisions wherein Section 1[242] sets the prohibitory tone by identifying the specific anti-competitive conduct, and Section 2[243] pertains to specific results that are anti-competitive in nature. The Federal Trade Commission Act proscribes "unfair methods of competition."[244] Additionally, the Hart-Scott-Rodino Anti-Trust Improvements Act of 1976[245] subjects larger transactions to pre-merger notification and reporting requirements. In the European Union, Article 81 of the European Community Treaty (ECT) prohibits "cartels and other concerted practices that distort competition" and "is roughly comparable to Section 1 of the Sherman Act."[246] Article 82 of the ECT addresses "abuse of dominant position" similar to Section 2 of the Sherman Act.

However, despite this seeming uniformity in the spirit of the laws of the United States and the European Union, companies should recognize that significant differences exist between the approaches employed by the two legal systems. Generally speaking, if business is being conducted outside of the United States, any differences in the respective countries' antitrust laws must also be considered. Returning to the example of the antitrust laws in the United States and the European Union, companies in the United States have learned the hard way that the European Union has a different approach to antitrust laws as compared to the United States.[247] The United States focuses on identifying anti-competitiveness that might result from horizontal relationships rather than vertical ones and is, therefore, pro-competitive.[248] The European Union is structured to protect competitors. As a consequence, a merger between two large entities might pass the muster in the United States, but fail in the European Union.[249]

Conclusion

The management of intellectual property has become more complex and sophisticated with the spread of the global economy and the shifting sands of business markets and company strategies. Intellectual property rights have evolved from being almost exclusively tools of defensive corporate strategies to being avenues of significant revenue generation and market penetration. However, with this recognition, corporations often have had to reevaluate and restructure their approach in developing and leveraging intellectual property rights. Structural and management decisions, as discussed in this chapter, are most successful when based on the particular needs, philosophy, and concerns of the company, which often evolve as the company or industry grows or changes. Management and ownership of intellectual property rights are critical to ensuring that companies are properly positioned to be able to successfully execute their business strategies.

Notes

1. PricewaterhouseCoopers, "Exploiting Intellectual Property in a Complex World, Technology Executive Connections," Vol. 4, June 2007 (statement of Horratio Gutierrez).

2. 17 U.S.C. §§101 et seq.

3. 35 U.S.C. §§1-376 et seq.

4. 15 U.S.C. §§ 1051 et seq.

5. Uniform Trade Secret Act (adopted in 46 states) and the Economic Espionage Act, 1996, 18 U.S.C. §1831–1839.

6. Licensing Industry Merchandisers' Association (LIMA), "Licensing Revenues Decline 5.6% in 2008, Brand Owners Look to Position Themselves for the Future," June 2, 2009, www.emailrepository.com/GL/060209li/index.html (last visited on February 25, 2010) (providing estimated licensing revenues by property).

7. Even though distinctive marks/brand names may be specific to goods/services, such marks/names appeal to all industries because entities want to distinguish themselves from their competitors and capture consumer recognition. Protection from disclosures of confidential information is achieved through trade secret law and again is not limited to any one industry.

8. Eric W. Pfeiffer, "Mine Games," June, 2002, statement of Bruce Berman, www.forbes.com/asap/2002/0624/060.html (last visited January 9, 2010).

9. 2008 Intellectual Property Statistics, FTI Consulting, Inc., March 2009, www.fticonsulting.com/en_us/resources/Documents/2008%20Intellectual%20Property%20Statistics.pdf (last visited February 18, 2010).

10. Ron Carson, "Get Your Assets in Gear: Aligning IP Strategy and Business Strategy," Innovation Asset Group, www.wipo.int/sme/en/documents/pdf/ip_business_strategy.pdf (last visited March 4, 2010).

11. Business Wire, February, 2005, statement of Doyal Bryant. "Many people, lawyers in particular, are still looking at IP assets as a bundle of legal rights that you need to assert in court in order to get some money out of them," however, "some leading companies, like ours, are starting to use those intangible assets to create new businesses and market their technologies."

12. Copyright protected against literal copying of the code. However, not all aspects of a software code are copyrightable. See *Computer Assocs. Int'l v. Altai*, 982 F.2d 693 (2d Cir. 1992); *Lotus Dev. Corp. v. Borland Int'l. Inc.,* 49 F.3d 807 (1st Cir. 1995).

13. 17 U.S.C. §§ 101 et seq.

14. 35 U.S.C §§ 101 et seq.

15. "Patent Reform in the 111th Congress: Hearing of the Senate Committee on the Judiciary," Federal News Service, Inc., March 2009 (statement of Sen. Patrick J. Leahy (D-Vt)).

16. IFI Patent Intelligence's list of 2008's top patent owners based on 2008 USPTO data, in order of rank, is: International Business Machines Corp., 4,186 patents; Samsung Electronics Co. Ltd. KR, 3,515 patents; Canon K K Jp, 2,114 patents; Microsoft Corp., 2,030 patents; and Intel Corp., 1,776 patents.

17. Intel's Financial Report (2008): Intel's intellectual property assets had a net value of $624 million for December, 2008 and the estimated value of intellectual property assets acquired was worth $68 million in 2008. Available at http://files.shareholder.com/downloads/INTC/817654389x0x284346/74829b05-7cd8-4ae2-a3b6-3ccfd5c2fcec/Intel_2008_Annual_Report_and_Form_10-K.pdf (last visited January 11, 2010). IBM's Financial Report (2008): Intellectual Property and Custom Development income increased from $958 million in 2007 to $1,153 million in 2008: Available at ftp://ftp.software.ibm.com/annualreport/2008/2008_ibm_annual.pdf (last visited January 11, 2010).

18. Carson, "Get Your Assets in Gear," 33–35.

19. John Cronin and Paul DiGimmarino, "Understanding and Unifying Diverse IP Strategy Perspectives," *Intellectual Asset Management* (January/February 2009).

20. Markus Reitzig, "How Executives Can Enhance IP Strategy and Performance," *MIT Sloan Management Review* (2007), 41.

21. Ibid., 40, providing a graphical representation for an integrated IP strategy.

22. Robert Shearer, *Business Power: Creating New Wealth from IP Assets* (Hoboken, NJ: John Wiley & Sons, 2007), 99.

23. A lawyer's skills are useful in determining the appropriate intellectual property right protection, such as a copyright for protecting literary works, trademark for brands, trade dress, patent design, and so forth.

24. A lawyer's skills are useful in determining the extent of protection even where the type of intellectual property right has been identified. For instance, whether a certain mark is better protected as a word mark, a stylized mark, a composite, or a color composite mark.

25. Alan Cohen, "Licensing's In and Lawyer's Out," *American Lawyer Media L.P.,* 2004. (statement of David Klein).

26. Ibid. (Statement of Stephen Fox, former vice president and deputy general counsel for intellectual property at Hewlett Packard Company.)

27. Joseph B. Root, "Re-Fighting the Last War: Dot-Com Ideas in the 21st Century," *Intellectual Property Today* (February 2008) quoting Kevin Rivette and David Kline, *Rembrandts in the Attic,* 1999.

28. Ibid.

29. Bo Carlsson, Monica Dumitriu, Jeffrey T. Glass, Craig Allen Nard, and Richard Barrett, "Intellectual Property (IP) Management: organizational processes and structures, and the role of IP donations," *Journal of Technology* (February 2008). This paper examines IP management in U.S. companies based on in-depth interviews and online survey data.

30. Tim Wu, "Intellectual Property, Innovation, and Decentralized Decisions," *Virginia Law Review* 92, no. 1 (2005): 104.

31. Ibid.

32. Ibid., 104.

33. Ibid., 104–105.

34. "IBM's Patent/Licensing Connection." *Industry Week* March 2003, statement of Jerry Rosenthal, IBM's former VP of intellectual property and licensing business.

35. Carlsson et al., note 29 above, at 554.

36. Ibid. at 555.

37. Wu, note 30 above, at 106, quoting F.A. Hayek, "The Use of Knowledge in Society," 35 *Am. Econ. Rev.* 519 (1945). ("If we possess all the relevant information, if we can start out from a given system of preferences and if we command complete knowledge of available means, the problem which remains is purely one of logic . . . . This, however, is emphatically not the economic problem which society faces . . . . [T]he "data" from which the economic calculus starts are never for the whole society "given" to a single mind which could work out the implications, and can never be so given.")

38. "IBM's Patent/Licensing Connection," *Industry Week*, March 2003, statement of Louis Galambos. ("They [IBM] have learned how to use licensing as a strong positioning factor in global markets.")

39. Ibid.

40. Wikipedia, "Cross Licensing," http://en.wikipedia.org/wiki/Cross-licensing (last visited March 12, 2010).

41. Ibid.

42. www.law.com/jsp/article.jsp?id=1202430463695 (last visited October 22, 2009).

43. John Teresko, "IBM's Patent/Licensing Connection," March, 2003, www.industryweek.com/articles/ibms_patent/licensing_connection_1228.aspx (last visited March 12, 2010).

44. Ibid.

45. Carlsson et al., note 29 above, at 555.

46. Ibid.

47. In re: Chocolate Confectionary Antitrust Litigation, MDL No. 1935 (M.D. Pa.) (Aug. 11, 2009).

48. Ibid.

49. Ibid. at 8.

50. Ibid.

51. Nestlé does not have direct control of the SBU or the SGDUs.

52. In re: Chocolate Confectionary Antitrust Litigation, MDL No. 1935 (M.D. Pa.) (Aug. 11, 2009) at 9, fn 10 indicating that "strategic marks are those assigned to large families of products, such as Nescafe.®"

53. Ibid.

54. Ibid.

55. Ibid. at 48, noting that Nestle's executives do not serve concurrently on the operating entity's board and the operating entity's board's CEO and executive officers manage the day-to-day affairs of the operating entity.

56. Ibid. at 44.

57. Ibid. at 50.

58. Ibid., indicating that "Société personnel have the right to inspect Hershey Global's facilities and monitor product quality, and nothing in the record establishes that Nestlé S.A. employees participate in these activities."

59. Ibid.

60. Ibid.

61. Ibid. at 44, indicating that Nestle's SGDUs offer pricing strategies were merely advisory and the operating entities are free to create their own.

62. See Lanning Bryer and Matthew Asbell, "Combining Trademarks in a Jointly Owned IP Holding Company," *The Trademark Reporter,* May–June 2008. Also see Pamela Chestek, "Control of Trademarks by the Intellectual Property Holding Company," *41 IDEA* 1 (2001): 5–7.

63. www.fordbetterideas.com/tc/mainframe.html (last visited January 7, 2009).

64. Ibid.

65. See Pamela Chestek, "Control of Trademarks."

66. "HP Announces Intellectual Property Licensing Group to Leverage Growing Patent Portfolio," January, 2004, www.hp.com/hpinfo/newsroom/press/2004/040112c.html (last visited March 4, 2010).

67. Ibid.

68. Joe Beyers, "IP Licensing at Hewlett Packard, Patent Engineering lecture," March, 2008 at p.7.

69. Ibid.

70. Ibid. at 8.

71. www.hp.com/hpinfo/abouthp/iplicensing/ (last visited March 4, 2010).

72. "Intellectual Property: Brand Licensing," www.hp.com/hpinfo/abouthp/iplicensing/brand.html (last visited September 23, 2009).

73. Ibid. Also see note 114 below.

74. See also Howard Fine and Andrew Ross, "Accounting and Tax Policies as They Relate to Intellectual Property," in *IP Strategies for the 21st Century Corporation.*

75. Bryer, note 63 above, at 860–861.

76. Ibid. at 861.

77. See *Sherwin-Williams Company v. Commissioner of Revenue*, 438 Mass. 71 (2002)

78. It is recommended that a tax lawyer be consulted before considering restructuring and incorporating an IPHC.

79. PricewaterhouseCoopers, note 1 above at 17 (statement of Joseph Beyers, Head of IP, HP).

80. See also Toshiya Oka, "Penetrating New Markets through Extension of Goods or Product Lines Expansion into Other Territories," in *IP Strategies for the 21st Century Corporation.*

81. PricewaterhouseCoopers, note 1 above at 17 (statement of Joseph Breyers Head of IP, HP)

82. Ibid.

83. Ibid.

84. Ibid.

85. In case of patents, an assignee is generally not permitted to file a patent application for registering the right. See Appendix R Patent Rules, §1.46 Assigned inventions and patents.

In case the whole or a part interest in the invention or in the patent to be issued is assigned, the application must still be made or authorized to be made, and an oath or declaration signed, by the inventor or one of the persons mentioned in §§ 1.42, 1.43, or 1.47. However, the patent may be issued to the assignee or jointly to the inventor and the assignee as provided in § 3.81.

86. See "Works Made for Hire Under the Copyright Act of 1976," United States Copyright Office, www.copyright.gov/circs/circ09.pdf (last visited December 15, 2009).

87. See "Manual of Patent Examining Procedure," Chapter 300 Ownership and Assignment, www.uspto.gov/web/offices/pac/mpep/mpep_e8r3_0300.pdf (last visited March 12, 2010).

88. Lanham Act § 5, 45 U.S.C.A §1127 providing that: A "related company means any person whose use of the mark is controlled by the owner of the mark w.r.t. the nature and quality of the goods or services on or in connection with which it is used."

89. See McCarthy on Trademarks, Assignment and Licensing, §18:52 quoting *Watec Co., Ltd. v. Liu*, 403 F.3d 645, 74 U.S.P.Q2d 1128 (9th Cir. 2005). The court affirmed the jury verdict that the foreign manufacturer was the owner of the trademark and that the U.S. importer and distributor's licensed use inured to the benefit of the foreign manufacturer.

90. See Lanham Act, note 91 above.

91. See Appendix R Patent Rules, note 88 above.

92. Ibid.

93. Gary H. Moore, "Joint Ventures and Strategic Alliances: Ownership of Developed Intellectual Property —Issues and Approaches," *The Computer and Internet Lawyer* September, 2007.

94. Ibid.

95. Ibid. at 2, explaining that patent rights developed under a broad patent cross license arrangement might become equally available to the cross licensees due to the collaborative nature of the agreement. See also James Markarian, "Strategic and Legal View of Licensing Patents," and Kelly Slavitt, "Monetizing IP Rights: Licensing In and Out," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

96. See also James Markarian, "Strategic and Legal View of Licensing Patents," and Kelly Slavitt, "Monetizing IP Rights: Licensing In and Out," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

97. Hung H. Bui, "Practical Strategies to Develop an IP Portfolio and Avoid Mistakes Pertaining to IP for High-Tech Startup and Small Technology Companies," *Intellectual Property and Technology Magazine,* June, 2005, www.ipfrontline.com/downloads/IP_Start_Up_Strategies.pdf (last visited March 15, 2010).

98. Ibid.

99. Ibid.

100. See History of Canon available at www.canon.com/about/history/; Canon: Sustainability Report (2008) available at www.canon.com/environment/report/pdf/report2008e.pdf; Canon Technology Highlights (2009) available at www.canon.com/technology/pdf/tech2009e.pdf (last visited January 11, 2010).

101. Ibid.

102. See discussion *supra* Strategic Alliances and accompanying text.

103. Christopher M. Kalanje, "WIPO-WASME Special Program on Practical Intellectual Property Issues—Ownership of IP Assets," October 2003, www.wipo.int/edocs/mdocs/sme/en/wipo_wasme_ipr_ge_03/wipo_wasme_ipr_ge_03_12.pdf.

104. USPTO, General Information Concerning Patents (January 2005) available at www.uspto.gov/patents/basics.jsp#functions (last visited February 23, 2010). Also see American Intellectual Property Law Association (AIPLA) Report of the Economic Survey to determine the average patent costs.

105. USPTO, Trademark FAQs, www.uspto.gov/faq/trademarks.jsp#Basic002 (last visited February 23, 2010).

106. USPTO, Trademark Process, www.uspto.gov/trademarks/process/index.jsp (last visited February 23, 2010). ("Federal registration has several advantages, including a notice to the public of the registrant's claim of ownership of the mark, a legal presumption of ownership

nationwide, and the exclusive right to use the mark on or in connection with the goods or services set forth in the registration.")

107. In case of a copyright litigation, registration is a legal prerequisite. See 17 USCS § 412 (registration is a prerequisite to avail of statutory damages and/or attorney's fees).

108. Nitin Aggarwal and Eric A. Walden, "Intellectual Property Bundle (IPB): Managing Transaction Costs in Technology Development Through Network Governance," http://ssrn.com/abstract=1372286 (last visited December 10, 2009) at fn 13 and 33.

109. Ibid. at 1.

110. Ibid. at 9.

111. Companies may adopt non-negotiable license terms as in shrink-wrap/click-wrap agreements.

112. Richard A. Posner, "Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property," 4 *J. MARSHALL R. INTELL. PROP. L.* 325 (2005).

113. Mohan Rao, "Valuing Intellectual Property in Licensing Transactions," *The Licensing Journal,* June/July 2008, stating that valuation of intellectual property is undertaken for "four purposes: (1) in the context of licensing transactions or acquisition, including as part of a business acquisition; (2) for regulatory compliance, such as in transfer pricing; (3) as collateral in financing or for intellectual property-backed securitization; or (4) in the context of litigation.". However, IP is one of the most difficult assets to value and its valuation may be undertaken by various means. See PricewaterhouseCoopers, note 1 at 18:

- Conducting a comparative analysis with other companies of profits earned due to IP assets owned, or the lack thereo
- Conducting a comparative analysis between the total revenues earned between branded and unbranded products
- Calculating potential savings due to the IP assets owned
- Conducting a comparative analysis of sales of similar assets.

For other strategies for valuation of IP, see Ted Hagelin, "Competitive Advantage Valuation of Intellectual Property Assets: A New Tool for IP Managers," *The Journal of Law and Technology,* 2003, 79. Also see "The New Role of MBA in Licensing," *Intellectual Property Today*" (February 1999) stating that "Intellectual property valuation [for technology] includes valuing the technology, determining manufacturing costs, determining royalties and methods of payment, evaluating the exclusive licensing against non-exclusive licensing and assessing financial damages for litigation purposes. Understanding the value of technology is a fundamental component in determining the above financial objectives and in devising business and technology marketing strategies. The technology's value underlies the terms of licensing negotiations and provides a guideline in selecting proper marketing strategies."

114. See also James Markarian, "Strategic and Legal View of Licensing Patents," and Kelly Slavitt, "Monetizing IP Rights: Licensing In and Out," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

115. See discussion *supra* Other Management Options and accompanying text in this chapter.

116. The assignment of trademark rights must not be in "gross," that is, the assets of the holding company should not be equitably owned by the operating company. The owner is the entity that controls the use and that is the proper party to apply for and obtain registration. See *In re Wella* A.G. 787 F.2d 1549, 229 U.S.P.Q. 274 (Fed Cir, 1986) (emphasizing that either the licensor or the operating corporation must be the registrant of the licensed mark).

117. See note 106 above.

118. Joseph Yang, "IP Ownership And Usage Rights in Joint Developments: Alternatives to Joint Ownership," *The Licensing Journal*, January 2004.

119. See Joint Ownership, www.ipo.gov.uk/types/copy/c-ownership/c-jointauthors.htm (last visited January 10, 2010). Also see Section 36 of the Patent Act of 1977.

120. See Rao, note 116 above.

121. *Martha Graham School and Dance Foundation, Inc. v. Martha Graham Center of Contemporary Dance, Inc.,* 2004 U.S. App. LEXIS 20904 (2d Cir., October, 2004). Under the 1976 Act, works that were created on or after January 1, 1978, acquired statutory copyright upon creation. The act extended this protection to works created before January 1, 1978, provided the work was not in the public domain or copyrighted. Also see 17 U.S.C § 302(a) and 303(a).

122. "Registering a Mark in the U.K," www.out-law.com/page-375 (last visited January 11, 2010).

123. USPTO FAQs stating that a federal trademark registration affords the owner "constructive notice" of a valid claim of ownership, the ability to file infringement actions in federal courts and the ability to prevent importation of infringing foreign goods bearing the owner's mark, available at www.uspto.gov/faq/trademarks.jsp#Basic002 (last visited November 18, 2009).

Similarly, a copyright registration affords the owner a prima facie presumption about the ownership and validity of the copyright. Further, upon registration, a copyright owner has the ability to file an infringement action in federal courts and may be entitled to statutory damages and attorney's fees. See note 110 above.

124. See *Do Denim v. Fried Denim*, No. 08 Civ. 10947, 2009 U.S. Dist. LEXIS 51512, at *7 (S.D. N.Y. June 17, 2009). Also see 17 U.S.C. §411(a) ("no civil action for infringement of copyright in the U.S. work shall be instituted until pre-registration or registration of the copyright claim has been made in accordance with this title").

125. Jean-François Bretonnière, Melanie Howlett, and Grégoire Corman, "Licensing Strategies: defensive protection and active exploitation," www.iam-magazine.com/issues/Article.ashx?g=5789fb19-ece0-4b4c-a33b-2288ad4a971e (last visited December 10, 2009).

126. See 17 U.S.C. § 302 –305.

127. USPTO, Trademark FAQs, www.uspto.gov/faq/t120052.jsp (last visited January 12, 2010), stating that:

"For a trademark registration to remain valid, an Affidavit of Use ("Section 8 Affidavit") must be filed: (1) between the fifth and sixth year following registration, and (2) within the year before the end of every ten-year period after the date of registration. The registrant may file the affidavit within a grace period of six months after the end of the sixth or tenth year, with payment of an additional fee." The registrant must also file a §9 renewal application within the year before the expiration date of a registration, or within a grace period of six months after the expiration date, with payment of an additional fee. "Assuming that an affidavit of use is timely filed, registrations granted PRIOR to November 16, 1989 have a 20-year term, and registrations granted on or after November 16, 1989 have a 10-year term."

128. See also James Markarian, "Strategic and Legal View of Licensing Patents," and Kelly Slavitt, "Monetizing IP Rights: Licensing In and Out," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

129. Developing and licensing technology: another source of revenue; FW FOCUS: TECHNOLOGY Franchising World (April 1, 2008) (statement of Gary R. Duvall).

130. Note that licenses are distinguishable from assignments in that licenses can be exclusive or non-exclusive and the owner invariably retains certain rights allowing the third party to

exercise specified, but not all rights. An assignment, on the other hand, is more like a sale that effectively transfers ownership and all associated rights.

131. George A. Frank, "Licensing IP Rights: Why, How, What, and When—A Corporate Perspective," *The Licensing Journal* (June/July 2004).

132. Ibid. at 2.

133. EPM Communications, Inc., "Minor on Revenue Line, Healthy for Bottom Line," Exclusive Survey of Trademark/Brand Licensors, *Licensing Letter* (May 2003).

134. Louis P. Berneman, Iain Cockburn, Ajay Agrawal and Shankar Iyer, U.S./Canadian Licensing In 2007-08: Survey Results, March, 2009, www.lesfoundation.org/survey/pdfs/2008 SurveyResults.pdf (last visited March 15, 2010). Also see note 6 above.

135. Cameron Gray, "A New Era in IP Licensing: The Unit License Right Program," *The Licensing Journal* (Nov./Dec. 2008) (stating that due to few mandatory disclosure requirements, "the quantitative figures do not adequately convey the importance and reach of IP licenses in the United States. . . . However, an indication of the magnitude of the transactions can be gleaned from the following:

IBM's annual licensing revenue is consistently more than $1 billion
Qualcomm Incorporated has posted more than $400 million in licensing revenue per quarter in recent years
Deloitte Touche Tohmatsu estimated that technology patent licensing revenues in North America surpassed $500 billion in 2007
In 2008, Northwestern University sold royalty rights to the drug Lyrica for a reported $700 million
In 2005, Emory University sold royalty rights to its HIV drug for a reported $540 million
In 2006, NYU reported more than $150 million in licensing income").

136. Press release, "Twentieth Century Fox Licensing & Merchandising Launches Ground breaking Merchandising Program for the Year's Most Anticipated Film—Avatar," *Market Watch,* December, 2009, www.marketwatch.com/story/twentieth-century-fox-licensing-merchandising-launches-groundbreaking-merchandising-program-for-the-years-most-anticipated-film-avatar-2009-12-10 (last visited January 11, 2010)

137. See Rao, note 116 above, at 21.

138. Ibid.

139. Licensing is distinguishable from an assignment in which all the copyrights in a work will be transferred without any limitation in duration.

140. See 17 U.S.C § 204. See also Kelly Slavitt, "Monetizing IP Rights: Licensing In and Out," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

141. Typically, EULAs contain restrictions imposed by the manufacturer/author on the use of the product. See www.webopedia.com/TERM/E/EULA.html (last visited March 13, 2010).

142. Agreements such as "Development and License Agreements" provide collaborating parties the right to develop a product further and the ability to make necessary modifications, instead of merely using it based on the terms provided by a manufacturer/author in an EULA.

143. See PricewaterhouseCoopers, note 1, at 28.

144. Ulrich Lichtenthaler, "Product Business, Foreign Direct Investment, and Licensing: Examining Their Relationship in International Technology Exploitation," *Journal of World Business,* (October 2009).

145. Ibid at 3.

146. Mohan Rao, note 116 above, at 1.

147. Andrew J. Sherman, Esq., "Strategies for Leveraging Intellectual Property Through Licensing, Joint Ventures, Alliances and Franchising," June, 2001, www.netpreneur.org/advisors/ip/images/Strategies_for_IP.pdf (last visited November 18, 2009).

148. See USPTO, 35 U.S.C. 261 Ownership; assignment (explaining that "an exclusive license may be granted by the patent owner to a licensee. The exclusive license prevents the patent owner (or any other party to whom the patent owner might wish to sell a license) from competing with the exclusive licensee, as to the geographic region, the length of time, and/or the field of use, set forth in the license agreement," www.uspto.gov/web/offices/pac/mpep/documents/0300_301.htm (last visited January 12, 2010).

149. See http://en.wikipedia.org/wiki/Cross-licensing (last visited March 13, 2010).

150. See www.entrepreneur.com/tradejournals/article/178615552.html (last visited March 13, 2010).

151. Tracy Wang, "Japan's Toyoda Gosei and Sharp enters into a LED cross-licensing agreement," LED inside, December 28, 2009, www.ledinside.com/toyoda_LED_20091228 (last visited February 20, 2010).

152. Ibid.

153. See note 139 above.

154. Wikipedia, Patent Pool, available at http://en.wikipedia.org/wiki/Patent_pool (last visited December 15, 2009).

155. Ibid., 6.

156. Gray, note 139 above, at 27.

157. Ibid. at 28.

158. See Jean-François Bretonnière, Melanie Howlett and Grégoire Corman, "Licensing Strategies: defensive protection and active exploitation," *Licensing in the Boardroom,* 2008, www.iam-magazine.com/issues/Article.ashx?g=5789fb19-ece0-4b4c-a33b-2288ad4a971e (last visted March 15, 2010) (stating that recently, the Louvre licensed the "use of its name to Abu Dhabi for 30 years for a tidy sum of US $520 million.").

159. See Bryer, note 63 above.

160. Lanham Act § 45, 15 U.S.C. § 1127 ("related company" as "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used.").

161. See Christian Dorffer and David Aaker, "Brand Papers—Dual Brand Ownership," *Brand Strategy*, April 10, 2006, 30.

162. See Bryer, note 63 above, quoting Christian Dorffer and David Aaker, "Brand Papers—Dual Brand Ownership," *Brand Strategy*, April 10, 2006, 30.

163. See *Topps Co. v. Cadbury Stani S.A.I.C.,* 454 F. Supp. 2d 102 (S.D.N.Y. 2006) (stating that a trademark is simply a symbol of goodwill and cannot be sold or assigned apart from the goodwill it symbolizes), citing *Marshak v. Green,* 746 F.2d 927, 929 (2d Cir. 1984) (citing Lanham Act §10, 15 U.S.C. § 1060).

164. See *Barcamercia Int'l Trust v. Tyfield Imports, Inc.,* 289 F.3d 589, 598 (9th Cir. 2002) ("Licensor is required to exercise control over the license to ensure that the nature and quality of goods are consistent and meet the standards set by the licensor.").

165. Mark A. Greenfield, "Good Will as a Factor in Trademark Assignments—A Comparative Study," *Trademark Reporter* 60, no. 2 (1970): 173.

166. Ibid., quoting *Topps Co. v. Cadbury Stani S.A.I.C.,* 454 F. Supp. 2d 102 (S.D.N.Y. (2006) (stating that a trademark is simply a symbol of goodwill and cannot be sold or assigned apart from the goodwill it symbolizes) citing *Marshak v. Green*, 746 F.2d 927, 929 (2d Cir. 1984) (citing Lanham Act §10, 15 U.S.C. § 1060).

167. See *Topps Co. v. Cadbury Stani S.A.I.C.,* 526 F.3d 63 (2d Cir. May 15, 2008) ("An assignment "in gross" is a purported transfer of a trademark divorced from its goodwill, and it is generally deemed invalid under U.S. law").

168. See Lanning, note 63 above, at 845, fn 56 referencing Mark A. Greenfield, "Good Will as a Factor in Trademark Assignments—A Comparative Study," to indicate that some countries allow for the assignment in gross of trademark rights independent of any transfer of goodwill.

169. See *Barcamercia Int'l Trust v. Tyfield Imports, Inc.*, 289 F.3d 589, 598 (9th Cir. 2002) (Plaintiff was unable to demonstrate "any involvement whatsoever regarding the quality of the wine and maintaining it at any level," and as a consequence engaged in naked licensing of its mark and forfeited its rights).

170. See *Dawn Donut Co. v. Hart's Food Stores, Inc.,* 267 F.2d at 366 ("[T]he Lanham Act places an affirmative duty upon a licensor of a registered trademark to take reasonable measures to detect and prevent misleading uses of his mark by his licensees or suffer cancellation of his federal registration."); see also McCarthy on Trademarks and Unfair Competition, § 18:42 (indicating that the trademark owner not only has the right to control quality, but also an obligation to do so).

171. See Greenfield, note 169 above.

172. See *Alligator Co. v. Robert Bruce Inc.,* 176 F. Supp. 377 (E.D. Pa. 1959) (even though the license agreement contained adequate provisions for quality control by the licensor, the court refused the licensor's summary judgment motion on the grounds that only a trial would clarify the factual issues of "what the parties actually do in carrying out the agreement").

173. See McCarthy, note 174 above.

174. See *Stanfield v. Osborne Indus. Inc.,* 52 F.3d 867, 871, 34 U.S.P.Q.2d (BNA) 1456, 1460 (10th Cir. 1995) ("The absence of an express contractual right of control does not necessarily result in the abandonment of a mark, as long as the licensor in fact exercised sufficient control over its licensee."); Moore Bus. Forms, Inc., 960 F.2d 489 (5th Cir 1992) ("there need not be formal quality control where particular circumstances [indicate] that the public will not be deceived").

175. See *Stanfield v. Osborne Indus., Inc.,* 52 F.3d 867, 872 (10th Cir. 1995) ("In cases in which courts have found that a licensor justifiably relied on a licensee for quality control, some special relationship existed between the parties"); *Transgo, Inc. v. Ajac Transmission Parts Corp.,* 768 F.2d 1001, 1017-18 (9th Cir. 1985) (in light of the fact that licensor supplied at least 90 percent of the components sold by the licensee and there had been years without complaint, and "[d]ue to [licensor's] association with [licensee] for over ten years and his respect for his ability and expertise, [licensor] felt he could rely on [licensee] to maintain high standards by performing his own quality control").

176. See Lanning, note 63 above.

177. See McCarthy, Restatement Third, Unfair Competition §33, comment c (1995), indicating that there can be no general standard for quality control. For instance, quality control applied for licensing a soft drink mark on a T-shirt may be totally inadequate for the purposes of quality control applied for a pharmaceutical trademark for use on prescription drugs.

"Cases both under the Lanham Act and common law apply a flexible standard responsive to the particular facts of each case. The ultimate issue is whether the control exercised by the licensor is sufficient under the circumstances to satisfy the public's expectation of quality assurance arising from the presence of the trademark on the licensee's goods or services."

178. See McCarthy on Trademark §18:58. Also see *Doebler's Pennsylvania's Hybrids, Inc. v. Doebler,* 442 F.3d 812 (3rd Cir. 2006) (a triable issue of fact existed that one family member, in his dual roles in the alleged implied licensor and licensee companies, "ensured that [licensee's] use of the mark was conducted with appropriate quality controls").

179. See *Procter & Gamble Co. v. Quality King Distributors, Inc.*, 123 F. Supp/2d 108 (E.D.N.Y. 2000) (Trademark will be deemed abandoned where the registrant licenses the mark and fails to police the license).

180. Naked licensing is an "[u]ncontrolled licensing of a mark whereby the licensee can place the mark on any quality or type of goods or services," raising "a grave danger that the public will be deceived by such a usage." 2 McCarthy on Trademarks § 18:48; also see Restatement (Third) of Unfair Competition § 33 cmt. b (1995) (Naked Licensing is "[w]hen a trademark owner fails to exercise reasonable control over the use of a mark by a licensee," such that "the presence of the mark on the licensee's goods or services misrepresents their connection with the trademark owner since the mark no longer identifies goods or services that are under the control of the owner of the mark" and the mark can no longer provide "a meaningful assurance of quality."); *Barcamercia Int'l Trust v. Tyfield Imports, Inc.,* 289 F.3d 589, 598 (9th Cir. 2002) (plaintiff engaged in naked licensing and was stopped from asserting rights in the mark because its quality control measures were insufficient, inasmuch as that the plaintiff engaged in minimal tasting of the wine, did not document the times of the tasting, and failed to demonstrate knowledge of reliance on actual quality control or on any ongoing effort to control quality).

181. In determining whether a trademark licensor engaged in naked licensing, the facts of each case must be considered and the burden of proof is stringent. See *Doebler's Pennsylvania's Hybrids, Inc. v. Doebler,* 442 F.3d 812 (3rd Cir. 2006) quoting *Creative Gifts, Inc. v. UFO,* 235 F.3d 540, 548 (10th Cir. 2000); *Tumblebus Inc. v. Cranmer*, 399 F.3d 754 (6th Cir., 2005) quoting *Exxon Corp. v. Oxxford Clothes, Inc.,* 109 F.3d 1070, 1075-76 (5th Cir.), cert. denied, 522 U.S. 915, 118 S.Ct. 299, 139 L.Ed.2d 231 (1997) ("Because naked licensing is generally ultimately relevant only to establish an unintentional trademark abandonment which results in a loss of trademark rights against the world, the burden of proof faced by third parties attempting to show abandonment through naked licensing is stringent").

Minority Views: North America, Inc. v. Magic Touch GmbH, 124 F.3d 876 (7th Cir. 1997) ("Naked licensing law is full of contradictory case law with some authorities requiring strict oversight by licensors and others taking a more lenient approach."). Some indicate that stipulation in the contract is sufficient, even if no actual control is exercised. *Ideal Toy Corp. v. Cameo Exclusive Prods., Inc.,* 170 U.S.O.Q. 596 (TTAB 1971) (proper "control" found where licensor had a right to control, even though there was no evidence of actual control). Other Courts have held that reliance on licensee's own quality control efforts may "be deemed as the taking of reasonable measures to protect quality of the goods bearing the mark."

182. See Lanning, note 63 above, at 840.

183. Ibid. at 841.

184. See Trademark Dilution Revision Act, 109 P.L. 312, 120 Stat. 1730 (2006).

185. Ibid.

186. Ibid.

187. See Lanning, note 63 above, at 843.

188. See Intangible Business Ltd., Ingredient branding case study: Intel, www.intangiblebusiness.com/store/data/files/360-Ingredient_branding_case_study_Intel.pdf.

189. See Lanning, supra note 63, at 844 quoting Saul Lefkowitz, "Double Trademarking—We've Come a Long Way," 63 TMR 11, 15 (1983) ("The use of each mark applied to the product must not confuse the purchasing public as to its function or purpose, or derogate the trademark rights of anyone who contributed to the creation of the product, or those who handle the product during its journey to the market place.")

190. See *Addamax Corp. v. Open Software Found.,* 152 F.3d 48 (1st Cir., 1998) at fn 2.

191. Nigel Parker, "Intellectual property issues in joint ventures and collaborations, *Journal of Intellectual Property Law & Practice*. 2, no. 11 (2007): 729.

192. Ibid., citing *Collaborating to Compete: Using Strategic Alliances and Acquisitions in the Global Marketplace*, McKinsey & Company, Inc., 1993, J. Bleeke and D. Ernst (eds).

193. See Kurt M. Saunders, *Marquette Intellectual Property Law Review* (2003).

194. Fancher, Deloitte & Touche, in "Mine Games," *Forbes ASAP* (June 2002).

195. Broox W. Peterson, "Protecting Your Intellectual Property from Your Strategic Alliance Partner," 2008, www.bwplawyer.com/uploads/Protecting_Your_Intellectual_Property_From_Your_Strategic_Alliance_Partner.pdf (last visited December 7, 2009).

196. See discussion in Chapter 2.

197. Ibid.

198. Oracle recently acquired Sophoi to "monetize digital content and enable better financial control of content assets," according to the VP of products at Oracle Communications, Liam Maxwell, www.crn.com.au/News/158080,oracle-buys-up-ip-management-firm-sophoi.aspx (last visited January 20, 2011). Also see the press release indicating that this collaboration will help Oracle "bring innovative end-to-end solutions to the media and entertainment industry," www.oracle.com/corporate/press/2007_may/sophoi.html (last visited November 18, 2009).

199. Lanning G. Bryer, Scott J. Lebson, Intellectual Property Assets in Mergers and Acquisitions, www.wipo.int/sme/en/documents/pdf/mergers.pdf (last visited on January 20, 2011) at 4.

200. Ibid., citing to Glenn A. Gunderson and Paul Kavanaugh, *Intellectual Property in Mergers & Acquisitions,* Trademarks in Business Transactions Forum, International Trademark Association, Sept. 16–17, 1999. See also Fernando Torres, "Valuation, Monetization, and Disposition in Bankruptcy," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

201. See also Scott Lebson, "Creating, Perfecting, and Enforcing Security Interests in Intellectual Property," in *IP Operations and Implementation for the 21st Century Corporation*, (forthcoming).

202. See David Edwards, "Patent Backed Securitization: Blueprint For a New Asset Class," Gerling NCM Credit Insurance, www.securitization.net/pdf/gerling_new_0302.pdf (last visited March 15, 2010).

203. See Ruth L. Taylor, Rudy Becerra, Patricia Stuart and Spencer A. Case, "Securitization of brand names: Basic concepts and its use in practice," *Journal of Brand Management* (2009).

204. Mohan Rao, "Valuing Intellectual Property in Licensing Transactions," *The Licensing Journal* (June/July 2008): 1.

205. See Taylor et al., note 207 above, at 63.

206. WIPO, "The Securitization of Intellectual Property Assets—A New Trend," www.kipo.ke.wipo.net/sme/en/ip_business/finance/securitization.htm (last visited Nov. 2, 2009).

207. Matt Morris, "Royalty Securitizations—Were "Bowie Bonds" Just a Fad?," www.cfi-institute.org/VP%20-%20Royalty%20Securitizations%20-%20Morris.html (last visited Nov. 2, 2009).

208. Ambac, Dunkin' Brands Securitization Marks Milestone for Innovative Private Equity Financing, www.ambac.com/pdfs/Deals/Dunkin.pdf (last visited on January 20, 2011).

209. Ibid.

210. "Morgan Stanley unveils $250m Securitization," *Financial Times*, July 2009, www.ft.com/cms/s/0/f0f05d54-6f2c-11de-9109-00144feabdc0.html?nclick_check=1 (last visited Nov. 2, 2009).

211. Ibid.

212. Ibid.

213. Ibid.

214. See Taylor et al., note 207 above, at 65, elaborating on a true sale securitization or a synthetic securitization.

215. Ibid at 63.

216. Ibid at 68. Also see Reuters, "Sears Securitizes its Brand Names," April 5, 2007. www.reuters.com/article/idUSN0523890220070405 (last visited February 20, 2010).

217. Ibid.

218. Kelly Holman, "A Starring Role for IP? As the securitization market comes back to life, private-equity firms are finding deal flow in intellectual property. Will the structured finance market support IP deals?," *Investment Dealers' Digest* (July 31, 2009) quoting John Fargis, Managing Director, U.S. Media Investment Banking, Jefferies & Co., www.allbusiness.com/banking-finance/financial-markets-investing-securities/12609889-1.html (last visited December 10, 2009).

219. See also Howard Fine and Andrew Ross, "Accounting and Tax Policies as They Relate to Intellectual Property," in *IP Strategies for the 21st Century Corporation*.

220. Xuan-Thao N. Nguyen, "Holding Intellectual Property," *State Tax Notes*, November 21, 2005, at fn 19. The author states that "Indeed, intellectual property has become so significant that the Federal Bureau of Investigation has admitted:

These valuable products, collectively known as 'Intellectual Property (IP), are the primary fuel of the U.S. economic engine. . . ."

221. Perry D. Quick and Timothy L. Day, "Management of IP: Intercompany Transfers, Offshore Planning, and Recent Developments Regarding Cost Sharing," *The Licensing Journal* (January 2006).

222. Ibid. at 15, explaining cost sharing arrangements as contemplated by the U.S. transfer pricing regulations.

223. Ibid. at 16.

224. CQ Transcriptions LLC, Third Quarter, Products Earning Conference Call, Maxim Integrated Products (April 2009).

225. Ibid.

226. See Lanning, note 63 above, at fn 15. Also see Christine Bauman and Michael Schadewald, "More States Challenge Trademark Holding Companies," *The CPA* Journal April, 2004, at 38, available at www.nysscpa.org/cpajournal/2004/404/essentials/p38.htm; John Dull and Michael Bredahl, "Great Opportunities in an IP Holding Company Beyond Tax Savings," *Intellectual Property Today,* January 2002, at 8; Susan Barbieri Montgomery and Leonard Schneidman, "*Intellectual Property Transfers—Holding Companies* in *Intellectual Property Assets in Mergers and Acquisitions* 13.4. (L. Bryer ed., 2002); State Income Tax Strategies, 1-7 Taxation of Intellectual Property §7.06 (2006).

227. 26 U.S.C. §351(a) (2007). Transfer to corporation controlled by transferor.

"No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation)."

228. Ibid.

229. 26 U.S.C. § 368 (c) (2007). Also see Lanning, note 63 above, at 860–861.

230. Certain states have attempted to counter the tax-free status of IPHCs by employing the argument that an economic nexus exists. See note 185 above.

231. *Quill Corp. v. North Dakota,* 504 U.S. 298 (1992) (the physical presence of a corporation was required to establish substantial nexus and thereby allow the state to tax such corporation); *Geoffrey Inc. v. S.C. Tax Commissioner,* 437 S.E.2d 13 (S.C.), cert. denied, 114 SCt 550 (1993) (by licensing the use of intangibles in South Carolina and receiving income in exchange of such use, Geoffrey had substantial nexus and minimum contacts with the state for the purposes of Due Process Clause and the Commerce Clause); *Lanco, Inc. v Division of Taxation*, N.J. Sup. Ct., Oct. 12, 2006; cert. denied; U.S. Sup. Ct., 06-1236, (June 18 2007) (Although the Delaware trademark holding company had no physical presence in New Jersey, because it derived income through a licensing agreement with a company conducting retail operations in New Jersey, the plaintiff had income tax nexus in New Jersey. Also, the Court noted that the holding in Quill is appropriately confined to sales and use tax); *A&F Trademark, Inc. v. Tolson,* 605 S.E.2d 187 (N.C. Ct. App. 2004), cert. denied, 126 U.S. 353 (2005) (the out-of-state trademark holding company licensed its intangibles for use in North Carolina and, therefore, there was sufficient tax nexus).

232. "What Are the Advantages and Disadvantages of Locating IP Offshore?," *Managing Intellectual Property* 85 (December 2008): 90–91.

233. Lanning Bryer, *Intellectual Property Assets in Mergers and Acquisitions*, 2001, at 14.1.

234. Ibid.

235. Ibid at 14.2–14.4.

236. Jamal Smith, "Offshore Securitization of IP Assets," *Mondaq Business Briefing*, May 28, 2008.

237. Article I, Section 8, Clause 8 of the United States Constitution:

"To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

238. www.ftc.gov/os/adjpro/d9341/091216intelcmpt.pdf (last visited January 8, 2009).

239. Jordan Robertson, "Intel Hit With More Antitrust Charges In FTC Suit," Associated Press, December 16, 2009, www.businessinsider.com/intel-hit-with-more-antitrust-charges-in-ftc-suit-2009-12 (last visited March 14, 2010).

240. The Clayton Act, 15 U.S.C. § 18 (2007); The Sherman Act, 15 U.S.C. § 1 and 2 (2007); The Federal Trade Commission Act, 15 U.S.C. § 45 (2007).

241. The Clayton Act, 15 U.S.C. § 18 (2007).

242. The Sherman Act, 15 U.S.C § 1 (2007) § 1. "Trusts, etc., in restraint of trade illegal; penalty.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $100,000,000 if a corporation, or, if any other person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court.

243. The Sherman Act, 15 U.S.C § 1(2007) § 2. "Monopolizing trade a felony; penalty.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $100,000,000 if a corporation, or, if any other person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court."

244. The Federal Trade Commission Act, 15 U.S.C. § 45 (2007).

245. The Hart-Scott-Rodino Act of 1976, 15 U.S.C. § 18 (a) (2007).

246. See Larry Bumgardner, "Antitrust Law in the European Union: The law is changing—but to what effect?" http://gbr.pepperdine.edu/053/euantitrust.html#1 (last visited March 14, 2010).

247. Ibid.

248. Department of Justice, "US and EU Approaches to the Antitrust Analysis of Intellectual Property Licensing: Observations from the Enforcement Perspective," April 2004. www.justice.gov/atr/public/speeches/203228.htm (last visited January 8, 2010). Also see Coco, "Antitrust liability for refusal to license intellectual property: a comparative analysis and the international setting," *Marquette Intellectual Property Law Review* (Jan. 1, 2008) (The Department Of Justice–Federal Trade Commission Guidelines for the Licensing of Intellectual Property adopted the "rule of reason." These guidelines clarify that "[a]s with any other tangible or intangible asset that enables its owner to obtain significant supra-competitive profits, market power or (even monopoly) that is solely the 'consequence of a superior product, business acumen, or historic accident,' does not violate [per se] antitrust laws." Case law has thus "shaped the refusal-to-license-the-IP law").

249. See William Drozdiak, "European Union Kills GE Deal," *Washington Post,* July 4, 2001, at A1. Also see Larry Baumgardner, "Antitrust Law in the European Union," commenting on EU's denial of the proposed merger between General Electric and Honeywell even though the United States had approved it.